

ECONOMICS OF THE
IMPORT AND EXPORT
TRADE

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JAMES STEPHENSON, M.A., M.COM., D.Sc.

*Lecturer in Commerce and Head of the Higher School of Commerce,
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BY

HIROMU NAGAOKA

PROFESSOR OF ENGLISH COLLEGIATE DEPARTMENT AND BUSINESS SCHOOL
TOKYO UNIVERSITY OF COMMERCE

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PREFACE

OF the various branches of study into which Business Economics may be divided few present such difficulties as those which are involved in gaining an understanding of the mechanism of the Import and Export Trade. Yet it is a subject which no commercial student in Great Britain can afford to ignore for it is no exaggeration to state that the activities of the import and export trade are the justification for the existence of the great industrial and commercial population of these islands. The ever increasing dependence of Britain upon overseas trade has in the past given rise to many serious warnings but it required the widespread dislocation of international trade which followed in the wake of the World War to drive this lesson home and to show that prosperity in this country is inseparably connected with foreign trade. The surveys of the Balfour Committee which will stand out as a landmark in British economic literature all centre on this question of increasing British competitive efficiency in the export trade. The whole of our industries they state in their Final Report whether making for the home or the overseas market are alike dependent on the maintenance of our export trade inasmuch as it is only by successful exportation that necessary supplies of food and materials can be obtained.

In compiling this work an attempt has been made to break away from the traditional treatment of the subject which frequently amounts to little more than a study in documentary technique. This aspect of the subject is of course of the greatest practical importance but at the same time the author is of the opinion that attention should also be directed to an equally important line of study namely the economic organization of the import and export trade. In recent years much valuable material has been accumulated by various official bodies such as the Empire Marketing Board the Imperial Economic Committee the Ministry of Agriculture and the Balfour Committee and the author has drawn freely on these sources in order to secure information on the most recent developments. ~~The student should receive every encouragement to consult such authorities himself~~ but it will be found that

in most cases, he will require guidance, and it is hoped that this book will supply the assistance which he requires. It has also been designed to cover the requirements of the various public examining bodies in Commerce and Business Economics so far as the syllabus relates to the import and export trade. With this object special attention has been given to the student who contemplates taking the examinations of the Union of Lancashire and Cheshire Institutes, the Royal Society of Arts, the London Chamber of Commerce, the National Union of Teachers, the Faculty of Teachers in Commerce, and the Northern Counties Technical Examinations Council.

In conclusion, I should like to express my sincere thanks to Dr. James Stephenson and to Mr. Noel Branton for the great assistance which they have rendered me throughout the preparation of the MS.

HIROMU NAGAOKA.

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ECONOMICS OF THE IMPORT AND EXPORT TRADE

SECTION I GENERAL PRINCIPLES

CHAPTER I

INTRODUCTION

TRADE has from the earliest times played a prominent part in the development of nations and it has been said with a considerable degree of truth that the trade routes of the world are the lanes along which history is constrained to flow. This fact however rarely gains adequate recognition for the work of the merchant in the diffusion of civilization on the basis of trade has always suffered from a comparison with the more spectacular if less constructive feats of military conquest. Yet it was the lure of commerce which drew the Phoenicians through the Straits of Gibraltar to brave the unknown terrors of the mysterious ocean which lay beyond and establish connections with the islands in the northern seas. The Phoenician ports became the commercial emporiums of the ancient world and their seaborne commerce defied all rivals. Phoenicia fell before the legions of Rome and a new power arose in the ancient world. The failure to distinguish between commerce and plunder proved again the vital part which commercial activities play in the destinies of nations. The Roman Empire based its economic prosperity on the plunder of its neighbours rather than on the development and exchange of its own resources, a fact which eventually caused its downfall

As Europe recovered after the fall of Rome new trading communities came into existence. Venice commanding the trade with the East through the Levant ports became supreme in the Mediterranean whilst in the north a corresponding power grew up in the

Hanseatic League. The fall of Constantinople in 1453 is one of those landmarks in world history which are of vital importance. The Turk had gradually encroached in the Near East, and one by one the Levant ports had fallen under his domination. With the fall of Constantinople the movement was complete, and the Turk had a strangle-hold over the trade between east and west. This event stimulated the discovery of the Cape route to India, and was followed by the discovery of America and the opening up of the Atlantic trade. These events had the effect of shifting the centre of commerce from the Mediterranean to the Atlantic—a change which could only end in the ruin of Venice. The discovery of the rich possibilities of the East and West not merely made the Mediterranean commercially of little future account, but gave to the nations of the European Atlantic coasts an impetus to progress and a reason for strife. The future history of these countries was dominated by a struggle for maritime commercial supremacy, caused by the flow of trade taking a new route.

Sufficient has been said to show the outstanding importance of commerce in the shaping of world events. We see the work of the chartered companies in laying the foundations of the British Empire and carrying the flag to the remote parts of the earth. Following this we see the rise of industrial Britain, and the growth of the overseas trade on modern lines. Change operates without ceasing in the sphere of economic activity, and overseas trade furnishes no exception to the rule. New factors modifying its direction and character are continually becoming operative, whilst old influences lose their force. Markets which once demanded large supplies of commodities now supply their needs themselves, but markets open up elsewhere for new commodities. Changes in economic policy, improvements in transport, and political upheavals all exert an influence which may easily have far-reaching effects on many nations.

NATURE OF INTERNATIONAL TRADE. The import and export trade is the bridge between the continents, and might be described as the motor which drives the machinery of the world's industries. By its means newly developing countries have transmitted to them the achievements of civilization, whilst the old European industrial states are enabled to draw upon new sources of raw material for their manufactures. The import and export trade implies something more than the purchase and sale of goods on favourable terms. The

home trader may carry out an important economic function by facilitating the rational collection and distribution of commodities within the community but this function he may perform quite unconsciously. The overseas trader however must not merely carry on a lucrative trade but he must deliberately give of his best by rendering pioneer service. He must work not simply for the present state of the market but his plans must be laid for years ahead. He invests his capital for a long period and some time may elapse before it yields any interest. For him a firm financial basis is an indispensable postulate. The risk of loss during transport or through extending credit is so great that overseas commerce requires much more capital than does the home trade. It is for this reason that so many undertakings which have been established during the post war period devoted to the import and export trade have been unable to survive.

□ In addition to these considerations the following problems also add to the complications of international trade—

- ✓ 1 Differences in the habits and tastes of the people in their language and business customs
- ✓ 2 Differences in currency and weights and measures
- ✓ 3 Complicated systems of import duties and customs requirements
- ✓ 4 Fluctuating rates of exchange
- ✓ 5 Great distance which usually separates the buyer and seller]

There is no great difficulty in controlling the market within the strict limits of an inland business which is confined to a particular branch of trade. The overseas trade however is universal. It embraces every article of daily life from a pin to a whole factory installation. To this has to be added the fact that success in the vocation can be achieved only by the closest adaptation to the world's market. The latter however with its numerous conflicting tendencies and its political influences is a sphere of activity which cannot easily be controlled. Hence the person who devotes his capital and energy to such a complex field must have ample confidence in his mental and material equipment. The complexities of a modern export business are almost unlimited. The world's currencies are dealt in and the merchant must be just as conversant with the state of the muleis or peso as with the quotation of the Japanese yen or the Shanghai tael.

CAUSES OF INTERNATIONAL TRADE. International trade is the natural outcome of the extension of the principle of the division of labour. Just as a particular district may benefit as the result of specialization in a certain branch of production, so nations come to specialize in those activities which enable them to utilize their natural advantages with the greatest effect. We shall, therefore, very briefly examine those factors leading to the territorial division of labour as between one nation and another.

1. **Size and Density of Population.** Industrially advanced nations possessing comparatively small areas and dense populations must rely upon imports of raw materials and foodstuffs, and upon exports of finished commodities in order to be able to subsist with a fair degree of comfort on the territories which they occupy. Thus, in the case of the United Kingdom the population has increased to such an extent within the last hundred years that about two-thirds of the food supply must be imported. In addition to this, in order to keep the mills and factories employed, large quantities of raw materials have also to be brought in. Hence, to this country foreign trade is a vital necessity.

2. **Geographical Location.** As already indicated above, the geographical situation of a country is a factor of the utmost importance in determining the importance of its foreign trade. The centralized position of this country with regard to the chief trade routes of the world has given us a great natural advantage. An advantage due to geographical location cannot by any means be regarded as permanent as witness the case of Venice and the trade with the East. The opening up of new routes or the development of new areas of production may move the centre of gravity of the world's commerce, turning a powerful advantage into a fatal disadvantage. There are some who consider that the great highways of commerce in the future will lie in the Pacific Ocean, and in the unlikely event of this happening, the British Isles would inevitably lose much of their present importance in world trade.

3. **Natural Resources.** The distribution of the natural resources of the world must, to a large extent, dictate the direction and volume of international trade. The suitability of a climate for the growth of agricultural crops or the distribution of minerals cannot be modified by the hand of man, and deficiencies in any of these matters can be made good only through exchange. Thus the British Isles is

practically dependent on overseas supplies for raw materials other than coal and for foodstuffs for the dense population

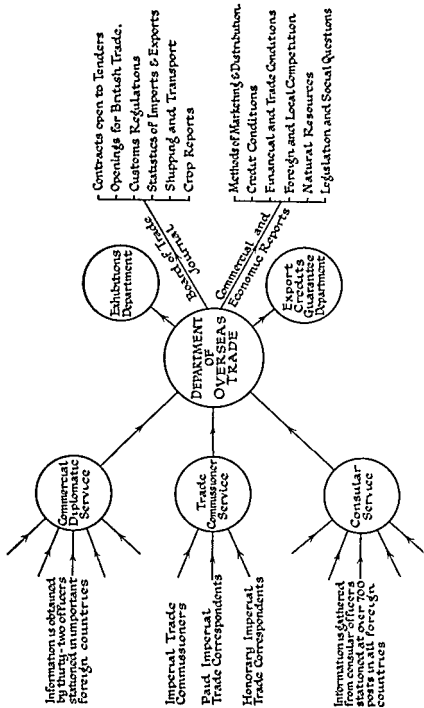
4 Degree of Economic Development The utilization of natural resources largely depends upon the human element and its capacity for industrial organization. The advantages which this country enjoyed during the nineteenth century by virtue of its superior industrial development are diminishing rapidly with the growth of industrial organization abroad. Dr. Marshall has pointed out that 'the percentage of the world's trade which is governed by differences in natural resources is increasing while that which is governed by differences of industrial phase and of aptitude for particular sorts and grades of manufacture is less now than formerly. This judgment is endorsed by the report of the Committee on Industry and Trade on Overseas Markets since it points out that the widespread development of home manufactures to meet needs formerly supplied by imported goods is by general consent one of the outstanding features of the post war economic situation.

THE GOVERNMENT AND FOREIGN TRADE As a general rule it may be said that the British business man objects to any government interference with commercial activities and is slow to respond even when action is taken with the ostensible purpose of lending assistance and of conferring benefits. In undertaking foreign trade however such a diversity of factors must be taken into consideration in order to ensure success that extensive preliminary inquiries are essential. These must be supplemented by a constant stream of up to date information bearing upon the overseas markets in which the trader is interested—information which can be secured only at considerable expense and trouble. If the trader were obliged to rely exclusively upon his own resources for such work it would entail a serious check upon his activities and it is of considerable advantage to him if there exists a central agency for the dissemination of the information which he needs. This function may be performed by a trade association or a chamber of commerce but even here serious limitations exist for such bodies are merely voluntary organizations whose resources are limited. Herein lies a field for legitimate government action in the provision of a supply of official information on commercial subjects. British traders have now at their disposal a means of obtaining from official sources information about foreign markets in a much more highly developed form than

was the case a few years ago. Up to 1917 the Foreign Office and the Board of Trade had shared the responsibility for the collection of commercial intelligence. In this year the demand of the commercial community for the unification and enlargement of the then existing system resulted in the setting up of the Department of Overseas Trade. It was founded as the result of a demand on the part of exporters for a department whose appointed action should be, not to administer statutes and make regulative or restrictive orders, but to assist them in their trading activities.

Hence, the main work of the department is to furnish exporters of British goods with information regarding overseas markets, to further their individual commercial interests and those of their representatives abroad, as well as the more general interests of the British export trade as a whole. The organization of the department together with the nature of the information it collects and distributes is indicated in the diagram on page 7. The department now controls three overseas services whose function it is to provide commercial intelligence, namely, the Commercial Diplomatic, the Consular, and the Trade Commissioner services. The Commercial Diplomatic Service was created by the department in order to replace the former commercial attaché system in foreign countries. It is organized in two grades, the senior of which is termed Commercial Counsellor, and the junior, Commercial Secretary. There are about thirty-four officers stationed in all the more important foreign countries. The representation of British commercial interests in the Dominions and Colonies is entrusted to Trade Commissioners, of which there are now thirteen. At a few of the most important centres they are assisted by paid Imperial Trade Correspondents, whilst the department also enjoys the services of a number of Honorary Imperial Trade Correspondents in various parts of the Empire. Consular officers are established in all foreign countries and, whilst their duties cover a wide field, commercial intelligence now occupies a prominent position.

Trade Commissioners and Commercial Diplomatic Officers furnish annual reports on the trade, economics, and finance of the country to which they are appointed. They place before the business community an informative account of the relative factors affecting current commercial developments in the principal Empire and Foreign markets, and constitute a comprehensive survey of commercial



and economic conditions throughout the world. These reports contain information which is of vital importance to traders dealing with the country in question, such as—

(a) foreign business methods with regard to conclusion of sales, granting of credits, packing and marking of goods,

(b) the extent and nature of demand for certain goods, with particular attention paid to local tastes, style, and prejudices,

(c) temporary fluctuations in demand arising out of abnormal economic or social conditions, such as bad crops or strikes,

(d) changes in tariffs and customs regulations, or patent and trade mark laws,

(e) nature of the transport facilities to and within the country.

In addition to these reports a continuous stream of information is made public through the *Board of Trade Journal* or is circulated to subscribers on a special register in return for a fee. The department has also a division which is concerned with exhibitions and makes arrangements for the annual British Industries Fair as well as organizing British participation in overseas exhibitions. In addition, it has an Exports Credits Office which administers the Acts dealing with export credits, guarantees, and insurance.

The work performed by the department has been of considerable value to the industry and commerce of this country, and traders are encouraged to avail themselves of its services to an increasing extent. The principle of Government assistance in the dissemination of commercial intelligence has been questioned in certain quarters where it is considered that such work should not be a charge on the funds of the State. The Final Report of the Committee on Industry and Trade, in commenting on this attitude, said: "We feel, however, that in these days of keen world competition, more especially in a country whose very existence depends on the development and maintenance of its export trade, the action of the State in assisting exporters by the organization of commercial intelligence is abundantly justified." Where such assistance is given, traders should play their part by availing themselves of the information and employing it to further their own interests and those of the nation.

TEST PAPER I

1. "The trade routes of the world are the lanes along which history is constrained to flow." Show the truth of this statement by reference to the main channels of trade at different periods of human history.

2 Show by reference to the main historical epochs how trade has been associated with the rise and fall of nations

3 What were the effects of the discovery of the West Indies by Christopher Columbus and the sea route to India by Vasco da Gama on the general prosperity of Great Britain relative to other great nations?

4 In what respect is the overseas trader a pioneer of civilization?

5 What are the chief factors which render the conduct of an import or export business more risky than that of the home trader?

6 Enumerate the chief causes which give rise to foreign trade and state what in your opinion are the advantages of such trade

7 In what way does the British Government render assistance to persons engaged in the import and export trade?

8 With the help of the diagram on page 7 explain the functions of the Department of Overseas Trade

9 Write brief notes on the following the consular service *Board of Trade Journal* Exports Credits Office

10 What are the principal sources of information as to the possibilities of trade with foreign countries?

11 What are the principal commodities dealt with in market reports? Who prepares these reports?

12 Great transport developments have always been followed by increased prosperity. How far may this statement be illustrated by reference to the history of Great Britain?

13 Trade between distant places began in the service of luxury. Comment on this proposition and explain some of the causes and effects of historical changes in the general character of long distance commerce

CHAPTER II

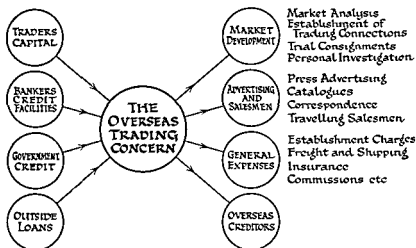
PERSONAL QUALIFICATIONS

OVERSEAS commerce plays a vital part in the economic prosperity of Great Britain. During the past century there has been a steady growth in the dependence on overseas supplies for the essential means of existence, and there is no reason to expect that the tendency will be arrested or reversed in the near future. In order to ensure the receipt of constant and adequate supplies of food and raw materials from overseas, one course only is open to the people of this country—we must offer our own products and services in payment. In other words, the import and the export trades are complementary activities, and the development of one involves an expansion in the other if a condition of equilibrium is to be preserved. In view of the importance of the import and export trades, the question immediately arises as to the qualifications of those engaged in it. Success in overseas trade, as in all other branches of commercial activity, depends upon the men who do the trading, but few forms of business make greater demands upon the human element. Scarcely any one of the many branches of commerce requires more varied experience and business ability than the import and export trade, and only a proper combination of these factors will allow such a business to thrive.

FINANCIAL REQUIREMENTS. In the first place, let us consider the financial requirements of this type of business. Trade with overseas countries, involving both the import and the export of goods, calls for considerably more capital on the part of the trader than may at first sight appear. This is due to the fact that in dealing with foreign countries the turnover is relatively slow, for the transactions do not succeed each other within a precisely stipulated and comparatively short period; it is usually a credit business of a more or less uncertain duration. The exporter will have to pay his home suppliers in cash, or perhaps, in some instances, within three months at the outside, but he is rarely in the position to reimburse himself in the same manner except, perhaps, when dealing with countries with stable political and currency conditions, such as the United States and the larger British Colonies. On the contrary, political

disturbances in the countries in question, failures in crops and fluctuations in the exchange, frequently make it impossible even for the best situated overseas customers to effect their remittances punctually, and the creditor has, therefore, to reckon with prolonged terms of payment

Again, in placing a new product on the overseas markets a certain amount of capital must be set aside for preliminary development,



SOURCES AND EMPLOYMENT OF THE CAPITAL OF THE OVERSEAS TRADING CONCERN

although it may not be necessary to use a large fund for such purposes. Since the monetary requirements of each trader depend on his organization and the scope of his activities in foreign fields, it is impossible to name an arbitrary figure as representing this initial capital outlay. The amount of capital for overseas trade development depends as it does in the home trade, upon the extent of the activities contemplated.

Furthermore, it need scarcely be mentioned that the conduct of the import and export trade on a large scale calls naturally for the provision of much capital. To a very large extent, of course, the trader will be obliged to rely upon his own resources for the necessary funds. Combined with his own resources however, the overseas trader must possess satisfactory banking and financial connections in order to be able to extend in any desired direction, and to be able

adequately to exploit favourable market conditions. Assistance in financing the business may also be obtained, in certain circumstances from the Government under the Export Credits Guarantee Scheme. The sources of the funds of an overseas trader's business and their utilization are illustrated by the diagram on page 11.

BUSINESS ABILITY. The business ability which is expected of an overseas trader embraces a wide field of commercial knowledge, and calls for a sound general education combined with practical experience in the wholesale trade of the home country, and with that of foreign countries. The demands made upon the traders engaged in the import and export trade increase from day to day, and the young business man must realize that only the greatest efforts will enable him to succeed. This is a point which needs special emphasis at the present day. The war has wrought a revolution in the markets of the world and in the methods of our competitors. The British manufacturer still retains the ability and initiative for which he is famous, and his products still lead the world in technical excellence. All this, however, is of small benefit to the country if the selling methods are defective. We cannot afford to wait for our customers to come and seek out our goods, but we must take positive action in the face of new conditions and intensive competition.

One of the essential facts which the overseas trader must bear in mind is that no ingenious methods or tactics of trade can act as a substitute for a knowledge of foreign peoples and an ability to adapt one's plans to the requirements of business in these lands. He must cultivate the faculty of projecting his imagination into the viewpoint of the people with whom he is dealing. The development of a successful business does not so much depend upon the facilities for supplying goods as upon ability and willingness to please customers. The overseas merchant must keep in mind the man to whom he sells the goods as the chief subject of his thought.

The educational training must be of a searching character, and the foundation of efficiency is to be found in a good general education, followed by a sound training in commercial subjects. In this way alone will the trader acquire a proper outlook on the commercial world. Moreover, a good education will increase his influence and respect in the eyes of his fellowmen. Following this general commercial training, subjects of a more specialized nature may be studied after the student has entered business. Amongst other

things he should make a study of the following with special reference to his own line of business—

1 The study of foreign markets the purchasing power demands and trading customs of the people the strength resources and methods of foreign competitors in those markets

2 The study of the product or range of products with which the business deals Every business man should at least have an elementary knowledge of the technical details of the product and its processes of production

3 The study of the means of trade development in overseas countries In this connection market analysis the use of advertising correspondence and travelling salesmen may be studied

4 The study of the technical elements involved in the import and export of the goods dealt in This will include financing shipping insurance and other documentary work

5 The study of the principal language or group of languages associated with the markets with which the business does most of its trade

The last of these requirements—the study of languages—is of special importance More than at any other time in the history of our foreign trade has this study for commercial purposes become an absolute necessity In order to obtain an expert knowledge of any market an individual must know the language of that area The merchant dealing with foreign markets other than English speaking ones must know either French or Spanish if he wishes to create a good impression and compete effectively with his rivals Of the ten or twelve important commercial languages Spanish French and Portuguese are the most generally used In learning a new tongue one does not merely acquire a knowledge of the language An entirely new field is opened to the student and he gains an insight into the course of the mental development of a race He acquires a broader outlook overcomes some of his former prejudices and on the whole has a more comprehensive understanding of the world at large

PRACTICAL EXPERIENCE The backbone of the import and export trade is practical experience—An ounce of practice is worth a pound of theory This old proverb is nowhere confirmed in a greater degree than in the overseas trade The aspirant to commerce who wishes to become a capable importer or exporter

must take this maxim to heart, and not feel despondent because he has to serve so long in a subordinate position. In this calling there is no room for mere theorists. Several years' apprenticeship will be required, clerical experience at home and abroad, and, finally, employment in a responsible position as a branch manager ought to precede his setting up in business for himself if such is his inclination. It is during these years of apprenticeship that the young business man should employ his spare time in the improvement of his education. Where he aspires to a responsible position he will then have the opportunity of translating his acquired theory into practice. His theoretical training will afford him many advantages over those colleagues who lack it, for there is no doubt that, other things being equal, the greatest efficiency is shown by those who have received the best education.

There is no branch of business in which perseverance and steadfast determination are more essential than in foreign commerce. The possession of these qualities alone will enable the trader to weather the vicissitudes inherent in the business. Provided he makes the best of his opportunities the young merchant will soon create a position for himself, either as an employee or on his own account. In the latter case it is essential for him to acquire gradually those personal relations which will form the necessary basis for the establishment of his own business. He must make himself acquainted with a nucleus of trustworthy people with whom he can keep in touch when he returns to the mother country. He should also utilize the opportunity of visiting places in the interior, and of studying the natural resources of the country on the spot, for such knowledge may prove invaluable to the success of his future business.

In many cases, however, there will be no desire to establish a new business, but even in this case there is ample scope for ability. Many large manufacturing concerns maintain their own export departments, and the position of Export Manager in such concerns is as desirable to many as the founding of an independent business. The office of export manager has come to be an extremely important one, and the holder of the post should be something more than a mere linguist. A few years ago this official had little or no training in the technique of foreign trade, and depended largely upon his success in salesmanship in the home market to make good in new fields. To-day he must possess the training of which we have already

spoken, and must be a man of wide experience in exporting practice, world markets, shipping and banking facilities and, above all, a commercial diplomat. It is important that the man selected should be more than a routine manager, for the office requires executive ability and quick adaptability to customs and conditions abroad.

THE FOREIGN SALESMAN. In this chapter we have discussed, so far, the training and qualifications of the executive connected with the import and export business, but before leaving the subject we shall give some consideration to another important member of many organizations—the travelling salesman. It is not every business which employs such men for the purpose of extending its connections, for whilst this method is one of the most effective it is also one of the most expensive methods of promoting sales in distant markets. A salesman should not be sent into foreign territory which has not been carefully investigated as to the possibilities which it offers for successful business. In the light of these considerations, when travelling salesmen are employed, every care should be taken in their selection. It is the traveller alone who comes into personal contact with the foreign buyer, and the impression which he creates may make or mar the reputation of the firm which he represents.

Although a thorough knowledge of foreign languages is essential, it is by no means the only qualification to be sought. The prime essential is selling ability. Foreign commercial travellers should not only possess all those characteristics which make for good salesmanship in the home trade, but they should be endowed with even greater powers of adaptability. It has been said that "The thing which most salesmen do not realize is that the amount of goods a man sells depends to a very great extent upon his *interest* in them, his *knowledge* about them, and his *imagination* concerning his goods and his customer." Where these three qualities are possessed by the salesman he is likely to succeed in his vocation.

The traveller must possess such interest in the goods he sells and in the firm which he represents, that his very conviction influences those with whom he comes into contact. This interest and enthusiasm must, however, be based on knowledge—knowledge which naturally includes a familiarity with such essentials as the qualities and prices of the goods, methods of shipment, packing and financing, the rules and policy of the house, and the comparative value of the

6 What qualifications are requisite for success as a travelling sales man engaged in the import and export trade?

7 Write a letter stating your particular qualifications for a clerkship in the office of a merchant engaged in the foreign and colonial trade

8 The prestige of British trade is founded on the *character of the goods* the *effectiveness of the service* and not least on the *integrity and ability* of those engaged in it. Expand this quotation into paragraphs taking as your topics the expressions in italics

9 One of the essential qualities of the salesman is knowledge—of his goods of his customers of the world generally. Substantiate this view

10 The necessity for the maintenance of an adequate efficient and high class body of salesmen is a vital factor in prosperity in overseas trade. Show the application of this statement with particular reference to the British export trade

11 The ideal representative in a foreign market is one who has the standing of a principal in the firm which he represents and as this is obviously not always possible then *a representative of the calibre and attainments corresponding to a principal* is desirable if British trade overseas is to make progress in the face of modern competition

Describe the nature of the qualifications to which reference is made in the above passage paying special attention to the phrase in italics

CHAPTER III

ESTABLISHMENT OF THE BUSINESS

AFTER the question of capital has been settled, and if the knowledge and connections acquired appear sufficient to start a business, the question of the location of the business arises. Leaving the inhabitant of a seaport town out of the question, since it is in the nature of things that he should prefer to establish himself in his native town, we turn to the inland resident to see where he would intend to settle down. If he wishes to devote himself to a special branch such as the export of certain manufactured goods without any idea of taking up the import, he will have to settle down, as a rule, in the centre of the industry in question where the manufacture of the special article is carried on. If, on the other hand, he desires to set up a commission agency, or general import and export business, a number of points will call for consideration.

LOCATION OF THE BUSINESS. The locality in question must not only be favourable for exportation but also for importation. Shipping and other transport facilities to and from all points of the globe, favourable opportunities of buying the goods to be exported, combined with equally favourable facilities for selling the goods to be imported, must be in existence. These conditions postulate the existence of a favourably situated hinterland, and also of modern marketing institutions, and relatively few places conform to these requirements. As a rule, one of the principal seaport towns will be chosen for the seat of the business, and it is then only a matter of securing suitable business premises. In the case of a small concern, this question is comparatively easy to decide, whereas the large-scale undertaking has to be viewed from a wider standpoint. In the first place, in the large business house we have to ensure that the administrative offices are centrally situated either in the so-called "city," or in the locality in which most of the businesses in the same line of trade have their offices. The ideal place, of course, is in the immediate vicinity of, or directly adjoining, one's own warehouse, which in turn should be well served by good means of transport.

In recent times, special office buildings of palatial dimensions

SAILING LIST. March, 19--.

| Vessel and Mtd Register Tonnage | Port | Sailing from Dock | Closing Date | Dest | Agents |
|---|---------|--|--|---|--|
| AALBORG, Denmark. Katholm 1877 | Swansea | South | March 12 | Det. Fosseholm, Denmark. Wilhelm & N. Copenhagen | G. Leonard & Co. Swansea |
| AARLESTED, Norway Langfjord 1881 | Swansea | Kings | March 2 | Northon Line | M. Jones, New & Mark Whitwell Ltd Swansea |
| Cable (re substituted) | Swansea | Kings | Advanced March | L. Jermans & W. van Lier Ltd | F. H. Tucker & Co. Ltd. Swansea. |
| ADO, Finland. • Fredrik 1700 Peddymon 1881 • Wadon 1871 | Swansea | Prince of Wales Prince of Wales Swansea 17th & 18th Wales | Weekly Weekly Weekly Weekly | J. & P. Huchison Ltd J. & P. Huchison Ltd Buckner & Co. New Brunswick A. Co. Huchison | Burgess & Co. Ltd. Swansea Burgess & Co. Ltd. Swansea Burgess & Co. Ltd. Swansea |
| • Proctor 1870 • Proctor 1700 • Kooligan 1810-10 | Newport | Alexandria Alexandria Alexandria | Weekly Weekly Weekly | J. & P. Huchison Ltd J. & P. Huchison Ltd Burgess & Co. New Brunswick A. Co. Huchison | Tucker & Co. Ltd. Newport Tucker & Co. Ltd. Newport Tucker & Co. Ltd. Newport |
| • Carlog 1801 • 1810 Hamburg | Newport | Alexandria | Weekly | Burgess & Co. New Brunswick A. Co. Huchison | Tucker & Co. Ltd. Newport |
| ACERA, West Africa Jaba 1881 (1881) | Car 1 | Queens | March 10 | Ellerthorpe & Co. Ltd | Ellerthorpe & Co. Ltd. Car 1 |
| ADEN, Arabia | Newport | Alexandria | March 10 | Ellerthorpe & Co. Ltd | Ellerthorpe & Co. Ltd. Car 1 |
| ADFLAIDE, Australia. Finn 1800 Parr 1800 Barry 1800 Laurin 1800 • Achille 1800 | Newport | Alexandria Kings Alexandria Alexandria Alexandria | March 10 March 10 March 10 March 10 March 10 | Ellerthorpe & Co. Ltd Ellerthorpe & Co. Ltd Ellerthorpe & Co. Ltd Ellerthorpe & Co. Ltd Ellerthorpe & Co. Ltd | Ellerthorpe & Co. Ltd. Car 1 |
| • Achille 1800 | Newport | Alexandria | March 10 | Ellerthorpe & Co. Ltd | Ellerthorpe & Co. Ltd. Car 1 |

* To connect with T & S "Jervis Bay" (1880) closing on London 1880 1880 1880

SPECIMEN PAGE FROM A MONTHLY LIST COMPILED TO SHOW DATES OF SAILING PORTS OF DESTINATION ETC.
OF SHIPS SAILING FROM THE PORTS OF SOUTH WALES

have been built in the chief commercial centres, and these are equipped with every kind of modern appliance. Here, on four or more floors, one office adjoins the other, and the trader is afforded the facility of renting one or more rooms at a reasonable price. The organization of the office must be undertaken in strict conformity with the requirements of the business. For the exporter or importer, it is well to equip a suitable sample room in which the samples may be displayed in such a manner as to present a pleasing appearance to the customers.

The driving force which regulates the conduct of the office work of an import and export business is to be found in the arrival and departure of sea-going vessels. A list of such vessels is published in the local shipping papers (see page 19), and with such information the trader must keep in close touch.

STAFF SELECTION. The choice of staff will likewise vary with the size and extent of the undertaking. A book-keeper, a cashier, a stock-keeper, and a correspondent may have to be engaged according to requirements, and the modern exporter will need still another employee to complete his staff, namely, the buyer. This person holds a highly responsible position which calls for great knowledge. As his name implies, his work consists in buying. When indents or orders are received from abroad, frequently embracing the most diversified articles, it is the buyer who knows the best sources of supply. He enters into communication with probable suppliers, and gives the orders to those whom he considers to be the cheapest and the best. His activity, however, is not confined entirely to the discovery of the best sources of supply; he must also be acquainted with the kind of packing most favoured in the foreign country, the tastes of the foreign consumers, and the probable saleability of the articles, so that the overseas buyer will not receive articles for which there is but little demand. He must know the fashion prevailing amongst the aristocracy of Tokyo as well as the articles in demand among the South Sea Islanders or the negroes of Central Africa. It therefore follows that he should possess a practical as well as a theoretical acquaintance with foreign peoples, and should know something of their habits and customs. Moreover, it is his duty to receive those overseas customers who visit Great Britain. Hence, in addition to a knowledge of foreign languages, he must also possess a courteous manner and a pleasing personality; he must also be a

skilled salesman as well as a buyer. His position is therefore a very responsible one and very often he acts as deputy for the chief. The importance of his position may be seen from the fact that in the advertisements of large export firms especially in the advertisements in export directories the name and hours of attendance of the buyer are frequently given. This makes it easy for manufacturers, agents or prospective customers to address themselves without loss of time to the person mentioned in the advertisement. The maximum

Time is money plays an important part in the wholesale trade.

ORGANIZATION OF THE BUSINESS Although in many businesses there is no separation of the export from the import section in very large houses the preponderance of one branch over the other makes some separation necessary. Thus in some firms we find a special export section or a specialization according to commodities such as Tea, Coffee or Sugar Departments whilst in other firms specialization may take place according to markets and we have a Far Eastern Department or a South American Department.

Every letter or document destined for overseas countries should be sent in duplicate each copy being sent by a different route in order to avoid the consequences of being lost in the post. Telegraphic communication plays an important part in the overseas trade. The system of telegraphic codes has been developed to such an extent that in addition to private telegrams official market and exchange notices are received daily from every important place in the world. These enable a merchant to control and follow up his speculations in the most detailed manner and to keep in touch with every occurrence in the markets in which he is interested. Most code messages are sent in the English language on account of its international character.

Closely connected with the conduct of an import and export business is the provision of adequate warehouse accommodation. It is necessary to store those goods which for one reason or another cannot immediately be shipped. On the other hand there must be suitable accommodation for the storing of those goods which arrive from abroad. Such accommodation is also necessary for the purpose of effecting the inspection, repacking and in some cases the preparation of the goods for market. Thus for instance coffee is subjected to the following process. On arrival from the ship it is transferred to the floor of the particular warehouse reserved for it. The

consignment is first of all examined as to its external condition, and those sacks which show water or other stains are set apart. The others are then opened, and after it has been ascertained that no sack smells mouldy, the contents are emptied on the floor in a heap. Whilst the empty sacks are being aired and, if necessary repaired, the heap of coffee is stirred up with wooden shovels. Thereupon, small holes are opened in the floor, and the coffee is allowed to drop down to the next floor. This fall tends to free it from any dust or dirt. It is then refilled into sacks and the remaining fragments of coffee are set aside as of little value. It is the business of the warehouse foreman to supervise this work. He must be a man of varied experience, and should be assisted by persons with practical experience who know how to treat the goods. These persons may be either employees of the importing firm or on the staff of the warehousing company. Dangerous articles such as paraffin oil may be stored in warehouses under State supervision, and goods which are likely to damage others must be stored in separate warehouses. The warehouses are generally kept by large limited companies with a big capital, that is, public warehousing companies, and are run on a profit-making basis. In some cases, a wholesale merchant imports goods which he intends subsequently to re-export to a foreign market. Such goods he places in bonded warehouses which have been specially provided to enable the trader to import goods without the payment of customs duty unless they are brought into home consumption.

THE STAFF. Such a complicated undertaking as is represented by a wholesale firm requires for the execution of its operations a diversified staff. Many wheels must be set in motion to enable the business machine to work smoothly. Among the many employees mention should be made, in the first place, of one who is partly connected with the firm without being included as a member of the staff proper, that is, the *overseas traveller*. In this connection we do not include the home travellers who, as a rule, represent firms which are not importers themselves, but those who buy from the importers, and whose activity is similar to that in other branches of trade. On the other hand, the overseas traveller is a person who may be regarded as a pioneer of trade.

The expenses of such travellers who travel round the whole world in order to open up direct overseas connections, and who sometimes

penetrate far into the interiors of semi civilized countries are naturally very heavy. For this reason a traveller may represent several firms each of which bears a *pro rata* share of the expenses. This system renders it possible for small manufacturers to try and open up direct connections with overseas countries. The position of an overseas traveller is a very responsible one and requires an efficient man if satisfactory results are to be obtained. He must know languages and commodities and be acquainted with the tastes and customs of the countries in which he travels. He must also possess robust health and great endurance. Journeys into half civilized countries cannot be compared with journeys on our highly developed railway systems.

THE AGENT The next auxiliary to be considered is the agent. In this connection a distinction must be drawn between so called export agents who mediate the intercourse with the export firms for an inland manufacturer and those who are settled in overseas places from which they carry out the import and export transactions for the firms which they represent. The business of the export agent has come into prominence only during the last fifty years. It is an organization which owing to its skilful mediation between the manufacturer and the exporter takes an important share in the success of manufacturers abroad. The export agent is equally important to the manufacturer as to the exporter. For the former he not only mediates the sale of his products to all countries but thanks to his large experience in dealing with home and foreign buyers and his knowledge of their requirements he can also give the manufacturer good advice on the making up and packing of his goods their quality taste etc. In short the export agent does much to facilitate the export of goods by manufacturers. To the exporter in turn he renders good service by continually submitting to him new articles finding out sources of supply sending out all sorts of catalogues and price lists in the languages demanded and by keeping a collection of samples.

Of all the means of propaganda the most effective is undoubtedly the export *sample exhibition*. This is a suitable exhibition of all the articles manufactured by the firms whom the agent represents. The exporter or the foreign buyer as the case may be here not only finds the article he desires but the tasteful arrangement of the exhibits frequently induces him to give orders for articles hitherto

Produce Broker The function of the produce broker is to bring together buyers and sellers of all kinds of raw material and foodstuffs and other articles which can be graded and which can be sold on an exchange

Bill Broker Although his principal activity is to mediate financial transactions connected with banking the bill broker is nevertheless indispensable to the wholesale merchant who daily receives bills of exchange in all sorts of currencies. He is therefore in continual need of the bill broker either for the sale of his bills or sometimes in order to buy them

Insurance Broker This person also plays an important role since he mediates insurances between the merchant who wishes to insure his goods for a maritime venture and the underwriter or insurance company

Ship Broker The function of this person consists in his arranging suitable freight accommodation between the shipowner and the merchant. He may also effect the business between a shipping company in its dealings with the consignors such matters as freight and loading passing through his hands

OTHER AUXILIARIES Among the other auxiliaries of which an exporter or importer must avail himself we may mention the forwarding agent the lightermen the loaders the weighers and measurers the appraisers or valuers and the analyst

✓ **Forwarding Agent** The forwarding agent acts as a middleman taking over goods from the exporter and passing them on to the carrier or shipper with whom he completes a contract of carriage. He performs a useful function in facilitating the movement of goods from consignors in one country to consignees in another. Since he is in constant communication with steamship companies he is able to supply information as to the best routes and lines the dates of sailing and current freight rates. The services of a forwarding agent are practically indispensable to the small inland shipper since he can provide for the combination of small shipments and quote lower rates than would otherwise be charged by steamship companies on small packages sent separately.

The value of the services of the forwarding agent to the exporter often depends upon the extent and efficiency of his foreign connections as in very many instances merchandise is consigned to an inland importer abroad and it becomes the task of the agent to

X:5 ensure that the goods arrive at their destination in the most expedient manner, and with a minimum of expense. While most forwarding agents undertake the dispatch of shipments to all parts of the world, some confine their operations to certain limited areas, and most can provide better facilities in some countries than in others. In some cases, the forwarding agent has extended his activities beyond his original functions, and undertakes such duties as the discounting of the manufacturer's bills drawn on the consignee, the operation of warehouses, and the purchase and sale of goods on their own account. Such activities bring him into conflict with agencies specializing in work of this nature, and lead to a wide distribution of his capital and efforts. Such departures from his true functions should not be attempted unless he possesses special facilities for ensuring success. 4533

Warehousekeepers. The warehousekeeper performs a valuable economic service by providing facilities for the storage or accumulation of goods, thereby smoothing out supplies and preventing price fluctuations.

✓ **Lightermen.** Closely connected with the warehousekeepers are the lightermen. In a large modern port, most vessels go direct to the quay, where they load or unload their goods. It sometimes happens that, owing to lack of space or for other reasons, a vessel has to anchor in the open stream or in the harbour where it loads or unloads. Frequently it is to the merchant's advantage to tranship the goods by water instead of by rail. This business is carried out by the lightermen. They are the men who undertake the transport to or from the vessel in barges to any place desired.

✓ **Stevedores.** In the case of goods to be shipped, the stowage is effected by stevedores. In the case of loose goods, such as grain, coal, salt, etc., the freight is paid on the quantity delivered, for other goods there is an independent weigher who may even be sworn and who ascertains the weight which is then binding for the ship and also for the consignee. Further neutral persons who, in most cases, are nominated by the Chambers of Commerce or the Customs authorities are the sworn measurers, who, for instance, ascertain the cubic measurements of timber, or in the case of wine, spirits, or other liquors, measure the contents of casks—their quality and degree of strength. In the case of disputes about quality, or any damage arising in connection with the goods transported by

land or sea, there are, furthermore, the valuers or appraisers who are generally drawn from the class of brokers. These are sometimes professional experts, or they may be chosen in a particular case by the disputing parties.

Finally, reference may be made to another auxiliary who has arisen in the last few decades in connection with the development of chemistry, and who has attained to great importance. This is the trade analyst. He is important in many branches of business in which the quality of goods has to be ascertained by analysis. Special laboratories are sometimes maintained by the State, and sometimes by private individuals. When disputes arise, the services of the expert analyst are frequently enlisted.

TEST PAPER III

1. What factors must be taken into consideration in determining the location of an import or an export business?
2. Mention the conditions which tend to regulate the choice of staff in a business engaged in foreign trade.
3. Account for the importance of the position of the buyer in an exporter's business. What are his chief duties?
4. Enumerate some of the chief characteristics of the business methods of the overseas trader as distinct from those of the home trader.
5. State the functions of an export agent. What methods of propaganda does he usually adopt?
6. Compare the work of a broker with that of an export agent.
7. Write brief notes on—produce brokers, bill brokers, insurance brokers, shipbrokers.
8. What services are rendered by forwarding agents engaged in the import and export trade?
- ✓ 9. What is the part played in foreign trade by lightermen and stevedores?

many difficulties that the export merchant is a most useful intermediary. The merchant with years of experience in the whole technique of buying and shipping who possesses warehouses abroad in which stocks are carried and who has built up a wide and valuable connection provides the manufacturer with a selling organization such as he could build for himself only by the expenditure of much time and effort. The position of the export merchant has been challenged in recent years and his hold on the export trade has weakened in those places where large importing firms exist—concerns which have sufficient capital and credit to enable them to deal directly with foreign manufacturers.

The export merchant is a great pioneer in foreign markets. In order to succeed he must possess keen judgment, an ability to interpret correctly economic conditions in his own as well as in other countries of the world, and he should be a good organizer. He must be thoroughly acquainted with ocean transport in all its phases with an eye on the constantly fluctuating freight rates in order to make the best of every opportunity if he is properly to serve and retain his overseas customer. He must organize his business for the rapid preparation of documents covering a wide range of details so that a foreign customer can dispose of any given package by reference to the documents connected with it without having to open and check over its contents before it can be sold or shipped away to some interior point. In view of these requirements the conducting of overseas business on these lines allows ample scope for individual initiative and concerns engaged therein tend to be organized as sole trading or partnership businesses.

In addition to the main office with its various departments the export merchant requires branches both at home and abroad through which he can keep in touch with the needs of particular markets. The merchant has to finance his shipments himself and make cash payments not only for what he has purchased in this country but also heavy disbursements for ocean freight expenses and further has to extend credit to his customer. It is not merely the possession of financial resources sufficient to carry through these expensive operations which makes the merchant's function important but also his trained discrimination in the granting of credit—both as to whom to grant it and for what period—and this protects the trade from heavy losses. Branches facilitate the work of the credit

of particular markets. Again, should a misunderstanding arise regarding the terms of a foreign order, the export manager can correct it with a minimum of delay. Such misunderstandings are by no means infrequent when instructions are handled by those who are not familiar with the exporting side of the business and the presence of a person competent to rectify them is of considerable assistance. On the other hand, however, by establishing his export department at a big port, the manufacturer gives his export manager the advantage of being in close touch with the buyers, who are constantly visiting this country, since few buyers will travel far if they can satisfy their requirements on the spot. Again he can look after all the details of shipping the goods which he sells to customers abroad or, if the work is entrusted to a forwarding agent, a closer supervision of the activities of the latter is possible. This often enables advantage to be taken of opportunities to secure proper freight space on favourable terms, and the possibility of rectifying any errors at the last moment.

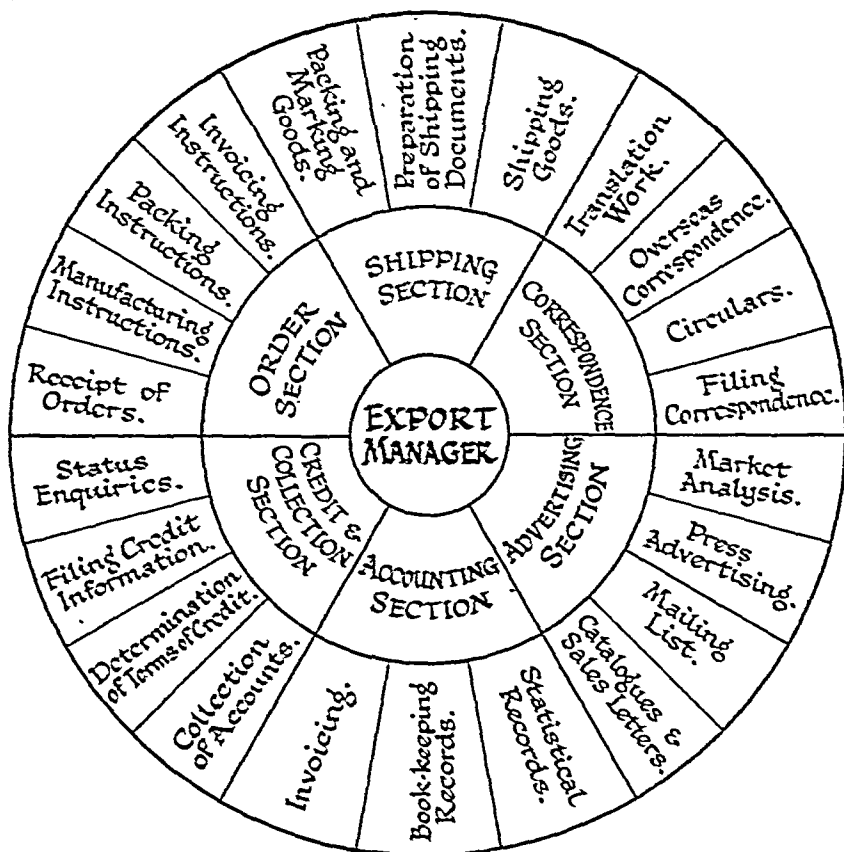
An indication of the organization of a large export department is given by the diagram on page 32. It may be divided into a number of sections under the supervision of the export manager, the chief of these being the following—

(a) **Order Section.** This section deals with the orders received from overseas customers. The execution of export orders calls for special precautions and the manager must pay particular attention to this section. He must instruct the manufacturing departments as to the peculiar requirements attaching to each order, and he should keep before him a record of the progress of each order from the time it enters the factory until its final dispatch. This section will have to give instructions not only to the producing departments, but also to the accounts section regarding invoicing and terms of payment, to the packing department and to the shipping department.

(b) **Shipping Section.** This division supervises the final packing and marking of the goods. It determines the route by which they shall be despatched, and makes all arrangements for transportation. The division delivers the goods to the shipping company, attends to their insurance, when this has to be undertaken by the exporting manufacturer, and sees to the preparation of all shipping documents and other papers. The section is under the control of a shipping clerk, who is responsible to the manager for the execution of the

important details involved. Defective packing and marking, mistakes committed in the documentation of shipments have often resulted in the loss of trade, so that whilst the duties of this section are of a routine nature, they are none the less extremely important.

(c) Correspondence Section. An efficient correspondence department



ORGANIZATION AND FUNCTIONS OF A LARGE MANUFACTURER'S EXPORT DEPARTMENT

is one of the main assets of any modern business concern, but in the overseas trade it is of vital importance. Every inquiry received from abroad should have the most careful attention, and every letter which is not written in English should be carefully translated so that there may be no misunderstanding regarding the subject-matter. The reply should be accurate and comprehensive, so that

requests for additional information are not rendered necessary. All the correspondence dealing with matters falling within the scope of the export department should be retained by it in the charge of the correspondence section. Where the letters also contain matters of interest to other departments copies should be taken to place on the general correspondence files.

(d) **Advertising Section** This division of the department evolves plans for foreign advertising campaigns and keeps a record of the efficacy of advertising media and methods. It will compile and maintain an up-to-date and comprehensive mailing list of foreign prospects preferably on a card index system. The cards may be arranged geographically by countries and by cities in each country. This section may form part of the general advertising department thereby avoiding duplication of functions.

(e) **Accounting Section** This section keeps a record of all data pertaining to the history of export transactions and works in close co-operation with the general accounts department. This department will also handle the invoicing of the goods—a matter which requires considerable care and experience on account of the numerous details which have to be incorporated.

(f) **Credit and Collection Section** This division supervises the granting of credit to overseas customers and also arranges for the collection of accounts. The section must keep comprehensive records of the financial standing of customers and likely prospects. It must keep in close touch with the various agencies which specialize in supplying information regarding the financial status of overseas business houses. The credit section of the export department usually forms part of the general credit department of the house.

JOINT SELLING ASSOCIATIONS The formation and maintenance of an export department on the above lines naturally requires a considerable expenditure of capital which is justified only when the amount of business done with overseas customers is exceptionally large. Where this expenditure on a costly selling organization is not warranted or where the individual firm cannot afford to undertake it, a joint selling organization is frequently created. Under an arrangement of this type the output of several manufacturers is disposed of in the overseas markets through the organization of an exporting company specially constituted for the purpose. The participating manufacturers furnish the working capital

OVERSEAS ORGANISATION.

HOME ORGANISATION.

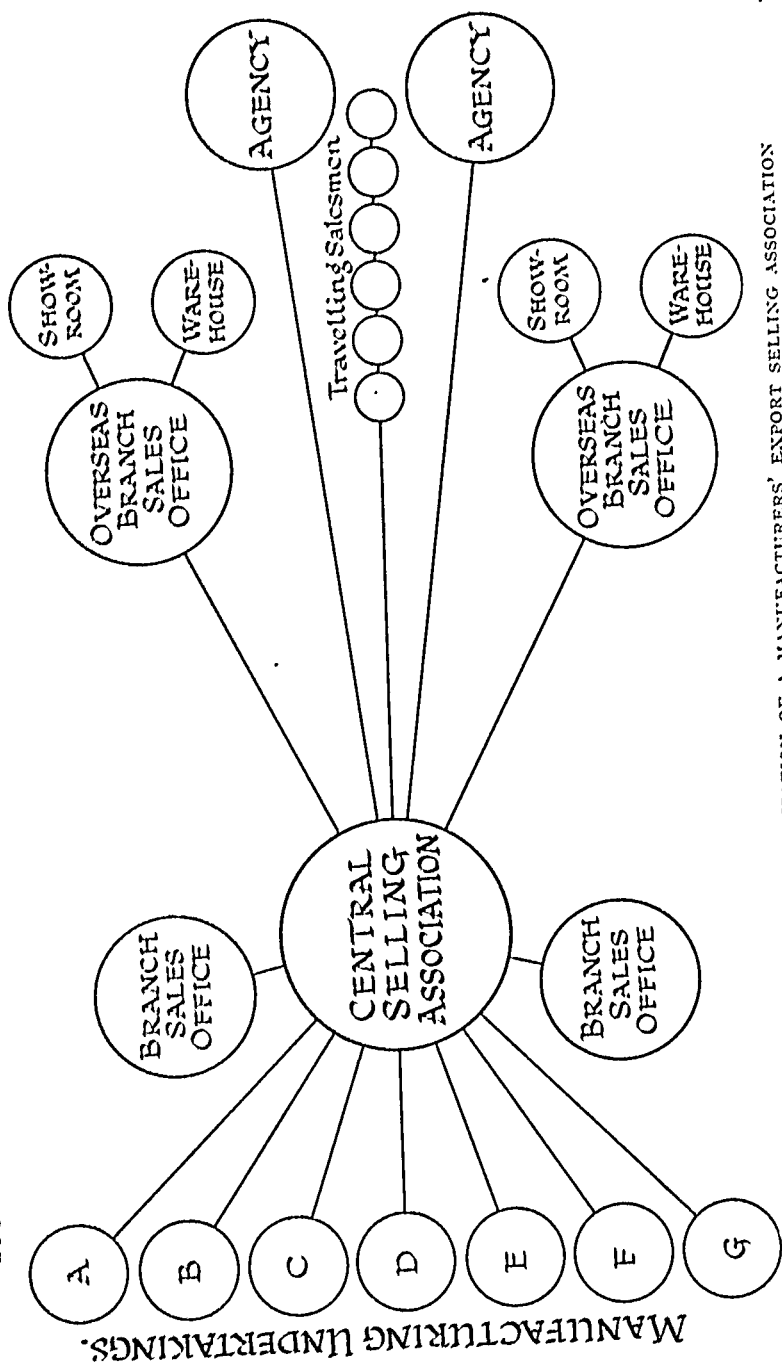


DIAGRAM ILLUSTRATING THE ORGANIZATION OF A MANUFACTURERS' EXPORT SELLING ASSOCIATION

of the selling organization in agreed proportions. The funds subscribed are used for trade promotion work, the establishment of branches abroad, and the maintenance of travelling salesmen. If all the concerns are engaged in the production of the same article, orders received are allocated to them in proportion to a previously determined production quota, or some similar arrangement. The organization of such sales associations naturally varies, but the diagram on page 34 gives an idea of their scope.

As an example of an association of this nature we may consider that formed in the machine tool section of the engineering industry, where a number of firms have come together and formed a company under the name of the Associated British Machine Tool Makers Ltd. The products of the member firms cover the complete range of machine tool equipment, but by agreement each produces only a limited number of types and machines. In the home market this organization works through local branch offices which have machine tool experts as managers and representatives. Abroad the sales organization varies according to local conditions, and may take the form of a branch office with showrooms, or an agency. Stocks of machines, small tools and accessories are maintained at these branches, so that supplies are available when required. Where an agent is appointed to act for the Association, an engineer conversant with the works of each member firm is usually attached to the staff of the agency. A general catalogue is produced in English and in several foreign languages, and the company circulates at home and abroad a bi-monthly periodical *British Machine Tool Engineering* which contains articles dealing with new machines or improvements in existing types.¹

The formation of joint selling associations is of particular benefit to small concerns which, when acting alone, cannot defray the comparatively large expenditures which the investigation and development of foreign markets usually involves. There is a considerable gain in efficiency in production and distribution. Co-operation enables manufacturers to free themselves from the problems which arise in connection with the multiplicity of styles, types and grades which are the outcome of competition. It is possible to introduce standardization and simplification in order to reduce costs of production. Yet though this type of organization offers many benefits

¹ See *Survey of Metal Industries* by the Committee on Industry and Trade.

it has not been successfully used to any great extent by British manufacturers. It has been found a matter of the greatest difficulty to arouse interest in such schemes, and, although a number of experiments have been made, they have usually failed on account of the lack of confidence among the parties to the arrangement.

BUSINESS ON JOINT ACCOUNT. It sometimes happens that two or more traders agree to enter into a partnership in order to carry out some particular trading adventure or speculation. They contribute towards the expenses incurred in the undertaking in mutually agreed proportions, and share profits or losses in the same manner. Such a combination is termed a joint adventure, and is temporary in nature since the relationship of the parties does not extend further than the particular transaction in contemplation. Hence it differs fundamentally from the joint selling association described above. The formation of agreements of this nature is based upon the desire to divide the risk of an enterprise among several people. Joint adventures are usually confined to transactions of relatively small magnitude, since a firm with ample capital generally prefers to operate alone rather than in conjunction with others. Nevertheless, on the principle that a divided loss is half a loss, two firms may unite for the purpose of sharing the risk involved in a particular venture. Again, one of the parties may possess special facilities for the purchase of goods whilst the other may be able to sell them on advantageous terms. In these circumstances, the combined services of the parties in a common adventure may make it a highly remunerative one.

In the overseas trade this kind of business is fairly common. A large consignment of goods, say coffee, is bought by an overseas merchant at a firm limit, and is consigned to a European firm for sale on joint account. Vice versa, it sometimes happens that the European merchant draws the attention of his business friends abroad to an article which might sell at a good profit, and consigns the article on joint account. This kind of business calls for rapid decisions on both sides.

CONSIGNMENT BUSINESS. The greatest extension in the overseas business has undoubtedly been experienced by trade on commission and on consignment. Both these terms are embraced in the same class of business, and present only a fine differentiation between transactions which are carried out for and on behalf of another party. If a merchant receives an order to purchase goods for a

business friend in return for a prearranged remuneration this is known as commission business. If however he sends goods for sale on his own account to an agent abroad and the latter agrees to dispose of them for a certain rate of commission this is known as consignment business. Thus commission business usually refers to the purchase of goods for a customer abroad whilst the consignment business refers more to the sale.

Export commission houses are primarily representatives of foreign importers on whose behalf they act in the exporting country. The business is carried on chiefly in the large ports and in many cases the commission agent also performs the functions of the forwarding agent in collecting the goods on their arrival from the source of production and in attending to their shipment. The main function however is the purchase of goods in accordance with instructions received from overseas concerns the latter paying them a commission for their services. By working on these lines the overseas buyer saves himself considerable trouble. For example consider the case of an Australian importer of British hardware who at intervals of a few months wishes to place orders for goods made by about twenty different British manufacturers. Instead of negotiating with each individual manufacturer the whole order is sent to an export commission house located say in London. The commission house distributes the orders to the various manufacturers the goods are collected and shipped on one bill of lading and the commission house pays the suppliers. The overseas customer settles the amount of the invoice either in cash or by drawing a bill of exchange on a London bank. If the consignee resides in a place where there is an important bank he may arrange for the shipper to draw upon him through that bank. The bank should be one with international connections so that the commission agent is in a position to collect the drafts without too much expense. Hence the drafts are usually drawn on the large European centres and sometimes on the principal towns in the United States and Canada. In those places in which the political and social relations are unstable and where revolution depreciated currency or unfavourable exchange might occur the merchant endeavours to dispense with the issue of drafts on such places in order to avoid exchange losses. In some cases there will be no actual settlement of the account but dealings may take place on the basis of a current account.

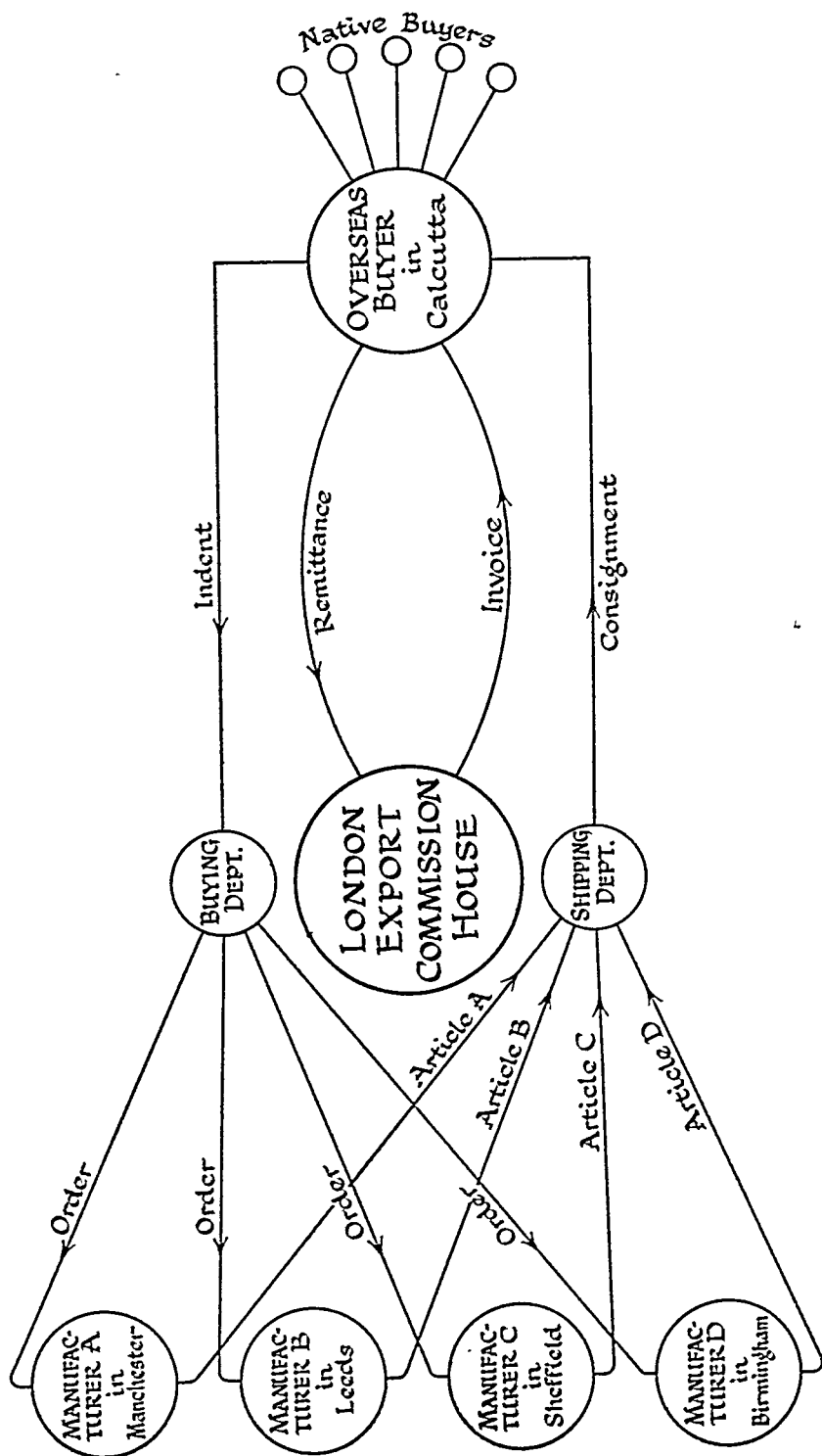


DIAGRAM ILLUSTRATING THE INDENT BUSINESS

Dealings of this nature are all of considerable advantage to the home manufacturer. In the case of an export order all risk and responsibility seem to be avoided. The system is however open to criticism in that no manufacturer who wishes to pursue a progressive policy of sales development can afford thus to abandon his goods. A manufacturer who distributes his goods in this way is not thereby dispensed from the duty of visiting the markets himself and becoming personally acquainted with market conditions. If he neglects this duty the merchandising system may act as a screen between the market and the manufacturer so that the needs and wishes of the consumer do not receive attention.

In consignment transactions the commission agent usually becomes a consignee. It is his business to collect the goods consigned to him and to dispose of them at the best possible price. In this he has to act in the best interest of his principal and to conduct the transactions as if he were dealing with his own goods. Frequently the consignor fixes a limit below which the goods must not be sold. In this case he has to reckon with expenses for warehousing and loss of interest if the state of the market is a fluctuating one. After the sale of the goods the consignor receives an Account Sales showing the result of the sale together with a deduction for expenses and the commission agreed upon. The amount is credited in account current.

It is usually the case that goods are consigned as a result of the existing state of the demand. It is sometimes the case however that a merchant is unable to find a suitable market for certain goods and desires to open up new markets. For this reason he decides to make a trial with a consignment. Where he is not sufficiently informed of the prevailing conditions of the market to which he intends to consign the goods he will ask his agent for a *pro forma* account sales. This is a statement which shows the probable result of the transaction and supplies the merchant with some idea of the prices expected, the expenses and the commission connected with the transaction.

In the case of entirely new articles which have not previously been introduced into the particular locality such a *pro forma* account sales cannot of course be rendered but the consignor must in the first instance risk a trial consignment which in the event of the goods finding favour amongst the customers will be followed

by larger consignments. Such trial consignments are not without risk, and the small manufacturer who intends to export directly should first apply to a commission agent in the foreign country for advice before he engages in such a venture, for his articles and their packing may fail to appeal to the foreign consumer. Thus, the commission agent may be able to supply him with valuable information which may protect him from loss. Frequently, however, the manufacturer thinks he can dispense with such help as entails the payment of a commission, and he enters into direct relationships with a country concerning the conditions in which he knows very little. In the beginning everything may proceed satisfactorily. His goods find a market; they are sold and the account sales comes duly to hand, but unfortunately the remittance—the most important thing—may be missing, because the foreign customer did not possess the honesty which was expected of him.

This leads to one of the most controversial questions in the export trade, that is, the justification for the employment of an export commission agent. The tendency of the day is to bring the producer into the most direct connection with the consumer, and to eliminate all middlemen, who apparently tend to increase the price of the goods. Theoretically, this tendency may often be justified, but it frequently fails when applied to actual conditions. In the first instance, it presumes that every producer is in a position to enter into direct contact with the consumer. Even with very large firms it is possible only within certain limits to effect this connection, but to the average manufacturer or merchant it is quite impossible. So long as the world does not consist of supermen who can do everything and know everything, the principle of the division of labour will retain its justification. The manufacturer with his eye on the technical processes of production cannot penetrate so deeply into the circumstances of an overseas customer and at the same time retain a proper control of the transactions. Moreover, as a rule he is not in a position to grant long credits and thus cannot dispense with the services of a third party who is willing to take the burden of financial risk from his shoulders. This third party is the commission agent, who, by virtue of his experience, his knowledge, and his capital power, constitutes the indispensable link between the inland manufacturer and the overseas buyer. He takes the financial risk from the manufacturer by paying him cash and by not being

satisfied merely with the work of mediation. He continually strives to stimulate the export trade by the dispatch of new articles by sending out travellers and by the equipment of trade exhibitions. In this work he succeeds chiefly because he is a specialist in these activities and hence it is to the interest of the manufacturer to keep in close touch with the commission agent who can place his business on a firm basis.

TEST PAPER IV

1 From the standpoint of legal constitution name the three main types of business engaged in the import and export trade.

2 The position of the export merchant has been challenged in recent years and his influence on the export trade has weakened in those places where large importing firms exist. Comment on this statement.

3 What are the advantages and disadvantages of conducting foreign trade on one's own account?

4 What are the questions which arise in the organization of a manufacturer's export department?

5 Draw the diagram on page 32 and explain the organization of a large export department.

6 What is the nature of a joint selling association? For what purposes is it usually brought into existence?

7 Draw the diagram on page 34 and explain its meaning.

8 What is meant by doing business on 'Joint Account'? In what circumstances is such a venture likely to prove beneficial?

9 Wholesale dealers generally buy their requirements in foreign and colonial produce from brokers or import merchants. Why do they adopt this course instead of purchasing direct from the exporting country?

10 Explain the method of doing business on consignment with a foreign country. In what respect does it differ from commission business?

11 With the aid of the diagram on page 38 explain the procedure which would be followed by a London export commission house on receipt of an indent from Japan.

12 What is meant by an Account Sales? Draw up an account sales for the following—

Jones & Son of Cardiff consign on 1st March to Robson & Co. Cape town enamelware invoiced at £250 and paid freight £9 12s 6d less of insurance £4 7s 6d. In transit one case of the ware was damaged and the underwriters paid £70 in settlement of the claim. Robson sold the remainder of the consignment for £280 and on 30th inst. in one Account Sales and Sight Draft in settlement of the proceeds from these expenses and 14 commission.

13 In what circumstances is it advisable for a manufacturer to import only the goods which are about to arrive—the direct trade with the consumer abroad?

14 How do you account for the important factor in the formation of information concerning local

commission agent in spite of the tendency of the manufacturer to trade directly with his overseas customers?

15. Describe the general organization for international trade (a) in the exporting country, (b) in the importing country.

16. Discuss the position of the middleman in the modern scheme of trade and indicate the advantages and disadvantages of having an intermediary of this type between the manufacturer and foreign importer.

17. A native merchant in India wishes to buy a miscellaneous assortment of English goods. Describe the process by which he would obtain them and the character of the chief commercial documents which would be employed.

18. By what different classes of the mercantile community is the export business of this country carried on? Give an account of the activities of each class, mentioning the way in which each secures remuneration for his services.

19. "The export manager should hold that deliveries on the promised date are as important as his prayers." Comment on this statement.

20. "Manufacturers of similar lines of goods should associate together in order to tackle a particular market." What benefits are likely to result from the adoption of such a policy?

CHAPTER V

PURCHASE AND SALE OF GOODS

In the preceding chapters we have given a short sketch of the general activities of merchants engaged in the import and export trades. We shall now devote ourselves to a consideration of the internal arrangements and procedure involved in the purchase and sale of goods. In this connection we may discriminate between two principal forms of activity, namely—

- 1 The estimation of the cost price of the goods
- 2 The actual delivery of the goods to the customer

PRICING THE GOODS Where a wholesale merchant is engaged in the purchase and sale of goods, he is required to calculate the cost price on the same lines as a manufacturer. His estimates, however, which are carried out with an eye to the exploitation of the world's markets, are of a complex nature and must take numerous factors into consideration. In the first instance, he has to become acquainted with the general conditions of the article in which he wishes to operate; he must also be able to form an opinion of the local conditions by perusing the market reports of the principal commercial centres. In addition to the official market reports from which much valuable information can be gathered, special reports are also prepared by brokers and agents who report on the prevailing prices and the market tendencies of their locality. The prices contained in such reports naturally presume a knowledge on the part of the buyer of the customs of the trade in regard to delivery, tare, rebates, and other allowances. Such trade customs differ according to the class of commodity.

The next task is to observe closely the statistics of the imports of the article. Every seaport issues daily reports of the cargoes of the incoming vessels and the supplies by rail; these are contained in the import lists. Those firms which have special interest in one article or another compile for themselves extracts from these import lists. These are drawn up to show not only the imports which have already arrived, but also those which are about to arrive—the so-called floating cargoes. A further important factor in the formation of an opinion of the article is the information concerning local

PORT OF LONDON AUTHORITY

SURVEY COMMERCIAL DOCKS, NOTHERHITHE

1st JANUARY, 1911.

STOCK OF WOOD GOODS ON THE PREMISES

ON THE 31st DECEMBER, 1911, AND ON THE SAME DATE OF THE PREVIOUS YEAR

| | On 31st December, 19 | | Previous Year | |
|-------------|----------------------|---|------------------|---|
| | In Stock | Not taken into Stock (In course of piling, etc.) | In Stock | Not taken into Stock (In course of piling, etc.) |
| European | | | | |
| (Deals | 577,214 Pieces | 415,228 Pieces | 1,114,724 Pieces | 222,295 Pieces |
| Battens | 2,682,431 " | 1,140,069 " | 3,313,053 " | 653,046 " |
| (Ends | 273,040 " | 116,845 " | 391,839 " | 166,333 " |
| Yellow Pine | | | | |
| (Deals | 169,857 " | 1,780 " | 149,661 " | - |
| Battens | 70,782 " | - | 67,457 " | - |
| (Ends | 103,393 " | 295 " | 88,127 " | - |
| Red Pine | | | | |
| (Deals | 11,564 " | - | 12,210 " | - |
| Battens | 23,098 " | - | 23,008 " | - |
| (Ends | - | - | - | - |
| Spruce | | | | |
| (Deals | 14,234 " | 528 " | 31,740 " | 178 " |
| Battens | 98,348 " | - | 139,817 " | 60 " |
| (Ends | 2,087 " | - | 5,241 " | 59 " |

STATISTICAL STATEMENT ISSUED BY THE PORT OF LONDON AUTHORITY SHOWING STOCKS OF TIMBER ON HAND
AT THE END OF EACH MONTH

stocks The statistics of these stocks are frequently compiled with very great care Thus the table on page 44 is an example of the monthly statistical statement of stocks of timber of various descriptions in the hands of the Port of London Authority From the same source information is published concerning deliveries of timber from the docks week by week

When the merchant has fully informed himself of the conditions prevailing in the home market he next casts an eye upon the external market conditions This is especially the case where he does not intend to buy directly from his own locality but wishes to exploit fluctuations of the world's markets Preliminary conditions for success in this direction are that he can either dispose of the article whilst it is still afloat and redirect it to another suitable port or that there are bonded warehouse facilities at his own port which enable him to deal with the goods in such a way that he does not have to carry out any customs formalities in the event of re-exportation Dealings in floating commodities are possible only where whole cargoes or large consignments are concerned so that the merchant has it in his power to redirect the ship to any other port As is well known only certain articles are still dealt in by the ship load These are principally grain nitrates coal rice dye woods hides and skins and a few others

In order to leave the buyer the option of redirecting the cargo to any of the principal ports of Europe without loss of time or without transhipment the ship is chartered with a clause— Channel for orders that is the captain of the vessel has to call at one of the order ports in the English Channel the names of which are given in the charter party For example—

Calling at Queenstown Falmouth or Southampton for orders and to obtain there definite instructions with regard to the port of unloading

Should the charterer also desire to have the option of unloading at a Mediterranean port Gibraltar may be stipulated as the order port Charters for such cargoes may be expressed thus—

The vessel to be ordered at the buyer's option to any good and safe port in the United Kingdom or on the Continent between Havre and Hamburg both inclusive

As regards the position in markets abroad the telegraphic market

reports and detailed reports which are periodically issued by overseas firms give the necessary information. Daily reports are received from all the principal commercial centres on such important articles as tea and coffee, and these are usually given in great detail. They furnish not only precise information of the market tendency and prices, but also statistics of the arrivals and available supplies. These statistics of the world's available supplies are of great significance in some markets, and there are institutions which have gained a great reputation in the compilation of such statistical reports, the reliability of which has become unquestioned. Thus, for example, most reliable reports on cotton are issued in the *Manchester Guardian*, and in the same way the statistics of the coal trade are highly esteemed for their reliability. These published reports are supplemented by the special reports of large firms in all parts of the world, which furnish information about special commodities and their import and export.

In calculating the price of his goods, the exporter must also take into consideration foreign customs duties. With few exceptions, overseas countries have adopted a protective system. High duties may be imposed, as in the case of the United States, with the object of safeguarding home industries or, like those of the South American States, for fiscal purposes constituting the principal source of revenue.

Of course, any possible changes in the customs tariff, especially increases in the rates, are calculated to affect the imports of the country in question to a considerable degree. The exporter must, therefore, keep a watchful eye upon the political conditions of the country to which he wishes to export. Frequently an imminent rise in the customs tariff may be avoided by the quick transport of quantities of goods to the country in question; sometimes the home government has to be appealed to for intervention with the object of preventing the imposition of tariffs which are calculated to diminish importation. Various countries, such as the United States, Chile, and Brazil also demand consular invoices for imports, that is, invoices certified by the consul of the importing country residing in the place of production.

Customs duties are sometimes calculated on the basis of fixed or specific rates. Sometimes the rates are *ad valorem*, that is, they vary with the value of the commodity. In this case, they are often of a

very complex nature, so that in some firms a special clerk is employed whose duty it is to deal with the intricacies of the customs system. Customs rates and their methods of calculation change almost as frequently as the governments themselves. The exportation from these tariff ridden countries is likewise burdened and hampered by customs formalities.

MARINE INSURANCE The subject of marine insurance calls for special study and it can therefore be treated here only in broad outline. Three kinds of insurance are to be distinguished namely—

1 The insurance of the ship and all that belongs to it. This is known as hull insurance.

2 The insurance of the freight.

3 The insurance of the cargo.

As a further factor in the fixing of prices the merchant is interested in the premium charged for insuring his cargo. The rates of insurance are subject to variations according to the amount of risk involved. These risks depend upon a diversity of considerations the chief of which are—

1 The kind and condition of the goods that is whether perishable or dangerous as for instance fruit powder dynamite etc.

2 The duration of the voyage.

3 The season of the year.

4 The destination and the seas to be traversed. Higher rates are charged to difficult or unsafe ports whose open anchorage affords little protection to the vessels or where sandbanks are deposited at the entrance to the port. A voyage through the Bay of Biscay round Cape Horn or the North Sea and Baltic in winter would all be considered risky.

5 Whether the ship is a steamer or a sailing vessel and how it is registered at Lloyd's.

6 The nationality of the vessel and its crew. Ships manned by members of the sea faring nations are considered less risky than others. Among the sea faring nations are included the Germanic peoples the French Italians and Spaniards among the Latin races whilst the Slavonic and Oriental peoples are generally considered less capable.

The goods are insured on the basis of their value at the port of departure that is FOB or on a CIF basis that is including the insurance and freight to the foreign port. To these values is

usually added an anticipated or imaginary profit which is, as a rule, calculated at 10 per cent. Furthermore, in order to estimate easily any damage, the goods are insured in a series; for instance, cotton in ten bale lots, coffee in lots of one hundred sacks, tallow for each ten barrels. Some goods are insured by the underwriters only if they are permitted to exclude a certain percentage of the value from compensation. This is known as *franchise*. Fixed scales are drawn up which regulate the amount of franchise in the case of various articles, for example, coffee in sacks, "free of 10 per cent damage," in casks, "free of 3 per cent damage." Other restricting conditions are "free of particular average," that is, the goods are insured only against total loss.

FREIGHT. The freight market must also be carefully studied. If the goods to be loaded are to reach their destination quickly, steamer transport only must be used; but if the arrival is not so urgent, the cheaper rates of the sailing vessels may sometimes be utilized. In the calculation of the freight, the goods are classified into light and heavy goods. Among the former are included all those goods which occupy a relatively large space in proportion to their weight. They are, therefore, measured according to their cubic capacity, and the freight is charged on the basis of 40 cub. ft. to the ton. Heavy goods include all those which are too heavy to be stored on the top of other goods without incurring damage. They are therefore placed in the lower hold of the vessel to give it the necessary ballast.

Most mass articles, such as iron, cement, tea, rice, coffee, etc., are heavy goods, the freight on which is calculated by the ton weight of twenty hundred-weights. A cargo consisting of heavy and light goods and including all sorts of articles is called a mixed cargo. Freight rates are in a continual state of flux; sometimes the market condition and at other times the state of competition is the dominant factor. During the last few years, they have been at a very low level. For this reason shipowners have endeavoured to raise them by the formation of combines. The rates are sometimes net, sometimes they are calculated with an addition known as *primage*, which generally amounts to 5 or 10 per cent. If a whole ship is chartered, either the freight is expressed in a fixed rate per ton or else the ship is chartered for a lump sum. For outward journeys, that is, from Great Britain to overseas countries the freights are payable in advance, whereas return freights are usually paid at the port of destination.

CONDITIONS OF SALE. After the merchant has fixed clearly the purchase price of the article and the quantity to be bought, he must then reflect on the conditions on which he intends to sell. If a person buys for future delivery, possibly with a stipulation as to the time of delivery, the following may be the terms of sale—

1 **FOB** (free on board at port of embarkation), that is, the seller delivers the goods free on board the vessel, whereas the buyer has to pay the freight, the insurance, and the unloading expenses

2 **CF** (cost and freight to the port of destination), that is the seller delivers the goods free to the port of destination, but without paying the insurance, which the buyer has to pay himself

3 **CIF** (cost, insurance, and freight) In this case the buyer has only to pay the cost of unloading at the port of destination

Of course, these conditions may be varied but the two latter quotations are the most favoured. In *loco* transactions, that is, where goods are purchased in the locality where they are immediately available, a variety of arrangements may be entered into between the buyer and the seller. These are expressed in the following terms—

Ex Warehouse, that is the buyer himself collects the goods at the warehouse

Ex Quay, that is, the buyer takes delivery on the quay

Free Warehouse, that is the seller must deliver the goods to the warehouse of the buyer

Free Alongside Ship, that is, the seller must deliver the goods alongside a particular ship

Other terms are—

Free Lighter

Free on Rail

Free Railway Truck or Wagon

Prompt delivery in *loco* transactions may signify delivery within a short space of time, which varies with local usage. In other cases the customs of the trade are definite for example 'Liverpool or London conditions'

After the conditions of delivery have been established, the terms of payment have next to be settled. In this matter there are no fixed rules which may be stated, since they depend upon local usage. The following are a few of the principal methods of payment—

1. Cash on receipt against a cash discount

2. Cash against documents

3. Three months acceptance against documents.

In the case of many articles, especially those dealt in by ship-loads, the merchant must furthermore take into consideration whether loading or unloading weight suits him the better. In the latter case the weight actually delivered as ascertained by expert weighers is paid. In the former case the weight stated in the loading note forms the basis of the payment, but in this case there are frequently certain customary allowances for overweight or loss of weight in the favour of the buyer.

In dealing with manufacturers and other suppliers, the exporter also stipulates certain conditions. These are usually given in a number of clear and concise statements which are intended to bind the manufacturer and refer mainly to the conditions of forwarding and the preparation of invoices. Where the exporter does not lay down specific conditions, trade customs or legal enactments may regulate the terms of the contract. A simple form of contract may begin as follows—

Please have the undermentioned goods packed for export and plainly marked as below. They must be delivered to the *West Dock, Cardiff*, for shipment to *Spain*, per s.s. *Bedrock* not later than 31st July, 19—.

Note that we require invoices complete in quadruplicate, not press copies.

Then follow the typewritten particulars of the marks and numbers of the cases, particulars of the delivery, whether F.O.B. or "free factory," price, etc.

The expression "packed for export" is commonly used by exporters when dealing with home manufacturers. Closely related to it is the expression, "goods to be carefully prepared for exportation" or some such clause. Other conditions usually stipulated in the contract are the following—

Each package must be clearly marked outside with the gross weight and measurements. Measurements should be taken outside, and should include all battens, and other projections. No package must exceed 250 lb. gross weight without written permission. No manufacturer's name to be put on goods or packages.

If you cannot forward goods as instructed please advise us at once of the approximate time of delivery.

CONDITIONS OF ORDER

- 1 **PACKING** Goods to be well packed and packages to be good and strong for shipment. If packages be found insufficiently strong or goods destroyed through bad packing, suppliers in every instance shall be held responsible.
- 2 **DELIVERY** If goods ordered for a specified date are not ready by time stated, we shall have the option of cancelling this order. Shipment must, unless otherwise specified, be made in one lot and any items omitted therefrom must be considered as cancelled unless re-ordered. Shipping instructions must be applied for when the goods are due for delivery.
- 3 **DISPUTES** The goods supplied in execution of this order must be exactly in accordance with the particulars stated thereon and no latitude for 'trade custom' can be allowed unless by special arrangement.
- 4 **INVOICES** To be sent in triplicate quoting marks and order number. Show prompt cash discount on the first copy only and enclose statement. Measurements and gross and net weights of case, and exact contents of each separate case must be shown on the invoice.
- 5 **PAYMENT** Where extra discounts are allowed for special prompt cash payments, statements must be sent with the invoices, stating conditions under which these discounts are allowed. Otherwise accounts will be paid in the usual manner after the goods are shipped, and the special prompt cash discounts will be deducted. We cannot hold ourselves responsible for any delay in payment if the statements are not sent as specified and if delay occurs on this account it is understood that we are nevertheless entitled to full prompt cash accounts.
- 6 **PRICES AND DISCOUNTS** Please inform us of the prices and discounts where these are not stated on the order.

When dealing with Continental firms some exporters introduce special clauses or conditions which are very clearly and concisely worded. This is particularly the case in regard to instructions appertaining to the marks of origin of non-British goods. Such instructions are usually printed on the face of the contract opposite the corresponding conditions which have reference to the home trade. The wording is usually as follows—

All goods must be marked, stamped, and labelled according to the Merchandise Marks Act

or in greater detail—

This order is tendered subject to your conforming to all statutory provisions relating to merchandise marks which obtain either here or in the above market, or in the country of production. Any deviation without our authority in writing will be at your risk.

The clause referring to disputes usually runs—"Any dispute arising on this order, either here or abroad, as to the correct execution thereof, to be settled by arbitration." On page 51 are given the conditions of a contract between an English exporter and a German manufacturer in illustration of the foregoing.

SAMPLE AND QUALITY. Finally, it is necessary for the trader to know what he is buying. Goods for future delivery are bought according to *type sample*, and *tale quale*. The first-named represents exactly the quality of the goods supplied. The seller gives the samples which represent only the average quality, not of the particular cargo, but of the whole of the crop of the article in question during the particular year. This quality is determined by experts after the crop has been got in, and transactions take place on this basis. As soon as the lot or consignment, bought on the basis of the types, arrives, it is examined by experts, and its quality ascertained in comparison with a standard type, and the buyer and seller must make allowances as the case may be for any divergence from the average quality. Thus, in the coffee trade, the basis of official quotations for future dealings is the standard type "Good Average Santos." On the Cotton Exchange transactions are carried out on the basis of "Middling American Cotton."

In transactions on *tale quale* terms, the buyer must accept the goods which arrive. Of course, only such goods are subject to these

conditions which do not vary much in quality. Differences in delivered purchases are frequent. Sometimes they are settled according to conditions agreed upon at the time of the purchase, and sometimes they are submitted to a court of arbitration. The judges in such a court are called arbiters, and usually belong to the vocation of brokers. The arbitration court usually makes its award on the basis of the trade usages which have been established by the exchange. The clause for such arbitrations in the so called London contract is worded as follows—

Any dispute arising on this contract to be referred for settlement to the arbitration of two London brokers or their umpire, one nominated by the sellers, the other by the buyers each party having the right of rejecting one nominee

In the case of non agreement, the goods in question are frequently sold by auction in order to secure a basis for further legal action between the buyer and the seller. The same procedure takes place in the case of average goods which are sold by auction on behalf of the insurance company.

The exporter, unlike the importer, is not so much concerned with standard types, quality basis, etc., but he is more interested in sample collections and trade marks. The sending out of sample collections of novelties of all kinds with a view to inducing further business has already been mentioned. Here we will only note what is understood in export circles by the term "reference samples". The wide distance separating the buyer and the seller, the inconvenience associated with the dispatch of samples to overseas countries, and the desire to avoid differences in quality, lead both the buyer and the seller to preserve samples of different goods for reference in case of repeat orders. Such samples are called reference samples. The exporter keeps them separately, and marks them with precise indications regarding price, customer's name, time of delivery, etc. The buying public of overseas countries is conservative in so far as it likes to buy branded goods already known. For that reason, the importers see to it that all their goods are dispatched to them under a certain trade mark which easily impresses itself upon the mind of the consumer, and thus facilitates ordering. A trade mark, once introduced, can be displaced only with great difficulty and the introduction of new trade marks involves much trouble and expense. Some firms bring their goods into the market under a

generally known trade mark, others may have different marks for the various articles they manufacture. In the case of export articles, the object should be to create a word or slogan which easily impresses itself upon the memory, such as—*Kodak*.

The same remark applies to a variety of other articles. On the basis of his prices which may be the result of prevailing market conditions, the foreign wholesale merchant can now make his calculations which will be precise in every respect. Before the contract is completed he must procure information concerning the financial standing and trustworthiness of his customer or of the reliability of the other contracting party.

DELIVERY OF THE GOODS. This consists of the packing, the shipment, and the receipt of the goods. The overseas merchant cannot pay too much attention to the make-up and packing of the goods. It is a vital condition for him that both should be precisely adapted to the requirements and taste of the country of destination, and unfortunately this is a matter which does not receive sufficient attention. The interior packing of the goods, that is, the make-up, should aim not only at preserving the goods, but also at rendering them attractive—a point to which the overseas customer attaches the utmost value. The external packing, that is, the wooden case must have a tin lining, so as to prevent the intrusion of sea water. At the ports there are always manufacturers who are able to deliver cases of any measurement within a few hours. The size of the case is often determined by the place of destination. For those localities which can be reached only by caravan, mules, or porters, the cases and bales must not exceed a certain weight. With the diversity of the systems of weights and measures in the various countries it is not surprising that the goods entering into international trade differ greatly in the method of packing. Thus, to mention a few, we may say that coal, nitrates, salt, and grain are mostly loaded loose into vessels; likewise paraffin oil is sent in this way in tankers; tobacco comes from North America in casks, from East India in bales made of jute, from Brazil in rolls; sugar from the West Indies and Brazil in casks, and from the East Indies in jute bags. Liquids come in casks, pipes, barrels; one country sends coffee in sacks of 120 pounds, another in sacks of 160 pounds, and others again in 100 pound sacks. Cotton and wool are shipped in hydraulically pressed bales in order to take up as little space as possible.

| English | French | Spanish | Portuguese | Italian | German |
|-------------------------------------|---|---|--|---|---|
| 1. With care | Attention | Cuidado | Cuidado | Attenzione | Vorsicht |
| 2. Glass | Fragile | Vidrio | Fragil | Vetro | Glas |
| 3. Not to be dropped | Ne pas laisser tomber | Non volcar | Nao tornar | Non ribaltare | Nicht stürzen |
| 4. Heave here | Soulever par ici | Levantes aqui | Pegar por aqui | Sollevar qui | Hier anheben |
| 5. Hold with chains not with books | Soulever avec des chaines manier sans crampons | No levantarla con ganchos sine con cadenas | Nao le sustentar com ganchos mas sim com corrente | Non sollevare con ganchi ma con catene | Nicht mit Haken, sondern mit Ketten anheben |
| 6. To be rolled—not tipped | Rouler ne pas renverser | No volcar, conduzcase rodando | Rolar, nao virar | Non ribaltare si bene rotolare | Nicht kippen, sondern rollen |
| 7. Do not store in a damp place | Pas emmagasiner en lieu humide | Colocarla enseguida en lugar seco | Teme humidade | Tenere all'asciutto | Sofort in trockenen Raum stellen |
| 8. Keep dry | A préserver de l'humidité | Preservada de la humedad | Proteger contra a humidade | Preservare dall'umidità | Vor Nässe zu schützen |
| 9. Top | Deans | Arriva | Em cima | Sopra | Oben |
| 10. Bottom | Bas | Debajo | Em baixo | Sotto | Unten |
| 11. Keep upright | Ne pas renverser | No dar vuelta á la caja | Nao virar | Non capovolgere | Nicht umbrengen |
| 12. Fragile | Fragile | Fragil | Fragil | Fragile | Zerbrechlich |
| 13. Open here | Ouvrir ici | Abrese aqui | Abreir por aqui | Aprire da questa parte | Hier öffnen |
| 14. When empty return to | Vide retour á | Vacio, vuelva á | Vaziado devolve a | Quando vuoto rimettersi a | Leer zurück nach . . |
| 15. Keep in a cool place | Garder en lieu frais | Guárdese en lugar fresco | Guardar em sitio fresco | Conservare in luogo fresco | Kühl aufbewahren |
| 16. Weight, net, legal, gross, tare | Poids, net, legal, brut, tare | Peso, neto, legal, brutto, tara | Peso, neto, legal, brutto, tara | Peso, netto, legal, brutto, tara | Gewicht, netto, gesetzlich, brutto, Tara |

The colour of materials used in packing and covering goods for export, and the design of the trade mark play a large part in the success or otherwise of the sale, especially among Orientals. Chinese traders have been known to refuse goods merely because they were offended by the colour of the packing paper. Certain colours are signs of good or ill omen, and white, blue, and green are vigorously avoided.

In the case of many goods it is frequently necessary to mark them "With care," "Glass," "Fragile," etc. Such expressions are of value in the export trade only when they are written in the language of the country to which they are consigned. The most common expressions of this nature in English, French, Spanish, Portuguese, Italian, and German are given in the table on page 55.

TEST PAPER V

1. Enumerate some of the factors which must be taken into consideration by the foreign wholesale merchant when effecting his purchases.
2. The foreign wholesale merchant sometimes deals in floating commodities. What conditions are necessary to ensure the success of this kind of business?
3. What factors must be taken into consideration by the exporter in fixing the price of his goods?
4. Rates of marine insurance vary considerably according to the amount of risk involved. Enumerate some of the considerations which give rise to these variations of risk.
5. On what basis are goods intended for export usually insured?
6. Explain the meaning of the following terms: f.o.b., c.i.f., ex. quay, free lighter.
7. Enumerate some of the principal methods adopted by the overseas trader in the settlement of accounts.
8. Explain the expression "tale quale" terms in a foreign trade transaction.
9. What are the chief points to be borne in mind in the packing of goods for sale in the overseas market?
10. State shortly the meaning of the following terms: B/L; F.O.R.; F.P.A.; A/S.; C.I.F.; F.A.S.; F.O.B.
11. Indicate, with brief explanations, the various types of quotation which the export merchant can adopt when tendering for goods to a client abroad. State the various items which are included in the selling price of goods, including delivery, fully insured, to a foreign port.
12. What do you understand by making up and packing goods for export, say, Manchester cotton goods to Rangoon?
13. In answer to a question set at an examination a candidate wrote: "It is more advantageous to buy C.I.F. than to buy F.O.B. because in the first case the shipper pays the insurance and freight, whereas in the second case, he only puts the goods on the steamer free. Therefore I would always purchase C.I.F." Do you agree with these remarks?

14 Salesmanship not only concerns the actual selling of goods it should cover everything that relates thereto e.g. packing ocean and rail freight customs duty port charges and service after sale where necessary Explain and elucidate

15 " Britain should lead the world not merely follow or equal her competitors in studying and satisfying her customers needs tastes and convenience Mention any ways in which this end may be achieved

16 The ideal in the export trade is to give the prospective customer what might be termed a no trouble quotation and thereby enable the British article to compete on level terms with its rival Explain and elucidate

17 Messrs Albert Smith & Co of Lime Street E.C.2 are exporters On their behalf write a letter to the British Electrical Supply Co Ltd enquiring their most favourable shipping terms and pointing out that a large trade may result if these are satisfactory

18 (a) Write to the Welsh Packing Case Co Ltd Long Street Cardiff on behalf of Messrs Mayberry Ltd Newport asking them to quote for crates The crates are to be made of good white wood planed all sides and besides nailing you require all edges to be secured by pierced iron strips You enclose scale drawings of the crate required and wish them to quote for deliveries of 120 at a time Mention the fact that you would require deliveries of 120 at a time and on a satisfactory quotation would require about 120 a week and would probably be willing to give a year's contract

(b) Make a quotation of 4s 9d each for the above and specify free delivery terms 5 per cent three months

(c) Send a letter accompanying the above and soliciting the order Say that on a year's contract the price would be only 3s 9d as special arrangements could be made for the work

people. Wheat is the most important of these and our chief sources of supply are Canada and the United States. But while the supplies from the United States are on the gradual decline the amounts we receive from Canada are rapidly increasing. There are two causes for this change, one economic and one political. The vast growth of the population of the United States means that more of its agricultural produce is required every year for home consumption, whereas the producing capacity of the vast corn lands of the Dominion far exceeds the requirements of her comparatively scattered and sparse population. The political cause is that statesmen have been trying to render the British Empire as far as possible a self-supporting unit and have therefore been encouraging to the utmost imperial trade by advocating preference on commodities from countries within the Empire. A large and increasing amount of wheat is being imported from Argentina, which now sends nearly as much as the United States. India has a great wheat reservoir in the Punjab and large quantities are exported to us from Karachi, the port of the area. The trade has been enormously stimulated by the development of irrigation, railway transport in India, and the opening of the Suez Canal. Statistics will help us in estimating the relative importance of the various sources of our wheat supply. The figures here quoted are for the year 1928. The total value of wheat imports was £57.6 millions, which was divided among the different producing countries as follows—British India £1 million, United States £13.1 millions, Canada £22 millions, Argentine £13.8 millions, Australia £6.1 millions. For the same period the annual imports of meal and flour amounted to £6.2 millions, of which the United States sent £1.4 and Canada £3.5 millions. The amounts derived from India, the United States, and Russia have declined (in the last case due to the Revolution), while that from Canada has rapidly increased.

Barley and oats are imported for the most part from the same sources as wheat but in smaller quantities. Maize, used chiefly in this country for feeding live stock, is mainly obtained from the Mississippi Valley. Rice comes chiefly from Bengal and Burma, but a certain amount is also imported from China.

The two most important grain ports are London and Liverpool. Oriental produce is sent mainly to the former and American grain to the latter.

We draw our meat supplies from several sources and their total

THE IMPORTERS SOURCES OF SUPPLY

Original-Trade Book Co. L.

A **B** **C** **D** **E** **F** **G** **H** **I** **J** **K** **L** **M** **N** **O** **P** **Q** **R** **S** **T** **U** **V** **W** **X** **Y** **Z**

annual value reaches a very high figure. The value for the year 1928 of all meat imported was £109·2 millions, and the trade seems to be rapidly increasing. This sum was divided among the Argentine, the United States, Australia, New Zealand, Canada and Denmark.

Much of the meat imported, especially that from Australia, New Zealand and the Argentine which has to pass through the tropics, is frozen, the ships being fitted with special refrigerating chambers and the carcasses being put in similar store houses on shore until they are marketed. There is also a large import of canned meats and meat extracts, the former from Argentina, Australia and New Zealand and the latter from Argentina alone.

A large amount of *fish* is sent to England especially from Canada and Newfoundland. Canned salmon and lobsters are obtained from the Fraser River and the Pacific coast of Canada, while the cod found round the coasts of Newfoundland have been famous since the fifteenth century. Fish and meat are sent mostly to Liverpool a convenient port for importation from the West.

Much of the *raw sugar* now imported is beet which is cheaper than cane sugar. The chief sources are Germany, the Netherlands, Austria, Hungary, and France. At the beginning of the twentieth century Germany granted a bounty to her beet sugar industry with the result that the cane sugar industry of the West Indies received a heavy blow, for German sugar swamped the English market. With the withdrawal of the bounty a few years later however came the revival of the trade in cane sugar with the West Indies.

The beet sugar is chiefly sent to London, Hull and Newcastle, but the cane is almost all received at London.

Imported dairy produce was formerly almost wholly derived from Denmark, Sweden, Holland and North France, but refrigeration has enormously widened the area from which we can draw our supplies since transport of butter and cheese through the tropics is made possible without deterioration of the goods. At present butter is obtained from Australia, New Zealand, Canada and Denmark. Canada supplies us with most of our cheese, sending over £4 millions a year, while about £1·5 millions comes from New Zealand. Eggs come from Denmark and Ireland, £8 millions being imported every year.

The trade in imported *fruit* is very important, and is receiving increased attention, becoming more scientifically organized both at

X:5 90
 home and in the producing countries. Millions of bushels of apples are sent to England every year from the United States, Canada, Tasmania, and South Africa. Only the very best fruit is allowed to be exported, so that a little better price can be obtained to defray the somewhat heavy transport costs. It is always especially carefully packed to prevent bruising, and the fruit is always sounded before departure, and any which is even slightly injured is discarded. The Mediterranean countries send us oranges and lemons, grapes, almonds, Barcelona nuts, figs and dates. The banana trade was greatly increased by the construction of vessels especially fitted to carry the fruit, the main sources of supply being the West Indies, Central America, and the Canary Islands. The chief port is London, whence the fruit is distributed all over England and Scotland, but Cardiff imports most of the fruit supply for Wales. 4533

The importation of *wine* is subject to heavy duties which are partly for revenue purposes and partly to discourage the trade to promote the health of the nation. The chief sources of supply are France, Spain, Germany, Italy, Australia, California, and South Africa. Brandy is obtained from the famous French vine region round Bordeaux, and is sent from that port to London and Newhaven.

China was formerly the only country from which we obtained *tea*. Now, however, China tea has a comparatively small sale in England, and the chief sources of supply are Assam and Ceylon. About four-fifths of our *coffee* is imported from Brazil, and the remainder from East Africa and the East Indies. Ceylon formerly had important coffee plantations, but tea was substituted when disease attacked the plant and ruined the industry. *Cocoa* is obtained from the Central and the Northern States of South America and the Gold Coast. The rapid advance of cocoa to the premier place among the exports of the Gold Coast, which now occupies a much more important position among cocoa producing countries, was partly due to the adoption of better methods of preparing the bean for market, but the native grower still leaves something to be desired in this respect. In a few years the value of the cocoa exported from the Gold Coast increased from £4 to £4,000,000. The market for tea, coffee, and cocoa is centred in London, but a large amount of cocoa is also imported at Bristol for the manufacture of chocolate and cocoa there.

At present the chief source of *tobacco* is the United States of America, but increasing supplies are being obtained from imperial

countries, especially Natal. Comparatively small quantities come from the East and West Indies, India, and Turkey. The principal ports for the tobacco trade are again London and Bristol, to the latter come especially large amounts from Virginia and South Africa in the raw state for the local manufacture of cigarettes and cigars. A large proportion of the tobacco sent to London is already manufactured.

The table on pages 64 and 65 shows that the total value of foodstuffs consumed in Great Britain was approximately £639 millions in the post-war period or just over double the corresponding total in the pre-war period. This total is equivalent to a per head figure of £14 11s. as against £8 in the pre-war period, i.e. an increase of 82 per cent. The contribution of home produce to the total has fallen from 43.3 per cent to 39.3 per cent, but the decrease in the home production has been made good by increased imports from Empire sources which, in the post-war period, amounted to 21.6 per cent of the total as compared with 17.7 per cent in the pre-war period. If, however, account is taken only of those foodstuffs normally produced in this country, which now form a slightly smaller proportion of the total supply than in the pre-war period, then the decline in the home production is only from 48.4 to 44.9 per cent. This reduction is largely due to the increased dependence on imported meat, especially from foreign countries, and on imported vegetables and fruit, while the increase in the Empire contribution is mostly due to heavier supplies of wheat and flour and to a less extent of dairy produce from these sources.

II. RAW MATERIALS AND ARTICLES MAINLY UNMANUFACTURED.

The annual value of all goods in this class imported during the five years before the Great War was a little more than £255,000,000, and though the post-war depression sent the figure down to £157 millions in 1921, it had recovered to £335 millions by 1928.

By far the most important item in the group is *raw cotton* for the Lancashire mills, forming nearly a third of the total value of the group. On the average nearly £71,000,000 of raw cotton were imported before the war, when the United States was our chief supplier, sending £48.27 millions as compared with Egypt's £17.87 millions, and India's £1.79 millions. At this time the United States grew about three quarters of the world's total cotton crop, but the relative importance of Egypt, East Africa, and India as cotton

ESTIMATED VALUE OF TOTAL FOOD SUPPLIES (OF GREAT BRITAIN) AND PROPORTIONS FROM THE VARIOUS SOURCES

| | Estimated Values | | | | Proportions of Total Supply | | |
|---|------------------|------------------------------------|------------------------------------|------------------------|-----------------------------|------------------------------------|------------------------------------|
| | Home Production | Net Imports from British Countries | Net Imports from Foreign Countries | Total Supply | Home Production | Net Imports from British Countries | Net Imports from Foreign Countries |
| | £ million | £ million | £ million | £ million | Per cent | Per cent | Per cent |
| | | | <i>Section I</i> | <i>—Pre-war Period</i> | | | |
| <i>Foodstuffs normally produced in Great Britain—</i> | | | | | | | |
| Wheat Flour . . . | 7.8 (a) | 10.9 | 20.3 | 39.0 | 20.0 | 27.9 | 52.1 |
| Meat (inc rabbits and lard) | 64.1 | 21.0 | 38.2 | 123.3 | 52.0 | 17.0 | 31.0 |
| Poultry and Eggs . . | 9.6 | 3.6 | 7.8 | 21.0 | 45.7 | 17.1 | 37.2 |
| Dairy Produce . . . | 30.6 | 13.9 | 19.8 | 64.3 | 47.6 | 21.6 | 30.8 |
| Potatoes and other Vegetables . . . | 11.2 | 1.2 | 3.1 | 15.5 | 72.3 | 7.7 | 20.0 |
| Fruit, Raw (small and orchard) . . . | 4.5 | 1.1 | 2.2 | 7.8 | 57.7 | 14.1 | 28.2 |
| Total of above . . . | 127.8 | 51.7 | 91.4 | 270.9 | 47.2 | 19.1 | 33.7 |
| Fish . . . | 8.4 (c) | .9 | 1.4 | 10.7 | 78.5 | 8.4 | 13.1 |
| Total, including fish . . | 136.2 | 52.6 | 92.8 | 281.6 | 48.4 | 18.7 | 32.9 |
| <i>Foodstuffs not normally produced in Great Britain—</i> | | | | | | | |
| Fruit and Nuts . . . | — | .8 | 9.0 | 9.8 | — | 8.2 | 91.8 |
| Margarine . . . | —(b) | .8 | 3.5 | 4.3 | — | 18.6 | 81.4 |
| Sugar . . . | — | .9 (c) | 16.5 (r) | 17.4 | — | 5.2 | 94.8 |
| Cocoa . . . | — | .5 | .8 | 1.3 | — | 38.5 | 61.5 |
| Grand Total . . . | 136.2 | 55.6 | 122.6 | 314.4 | 43.3 | 17.7 | 39.0 |

| <i>Foodstuffs normally produced in Great Britain—</i> | <i>Section II -- Post war Period</i> | | | | |
|---|--------------------------------------|---------|----------|-------|------|
| | 10 6 (a) | 30 8 | 29 5 | 70 9 | 15 0 |
| Wheat flour | 98 6 | 38 2 | 85 7 | 222 5 | 44 3 |
| Meat (inc rabbits and lard) | 22 2 | 6 1 | 16 3 | 44 6 | 49 8 |
| Poultry and Eggs | 62 5 | 32 6 | 33 3 | 128 4 | 48 7 |
| Dairy Produce | 31 3 | 3 2 | 10 0 | 44 5 | 70 3 |
| Potatoes and Other Vegetables | 8 5 | 3 4 | 7 4 | 19 3 | 44 0 |
| Fruit Raw (small and orchard) | | | | | |
| Total of above | 233 7 | 114 3 | 182 2 | 530 2 | 44 1 |
| Fish | 15 2 (c) | 1 9 | 7 7 | 24 8 | 61 3 |
| Total including fish | 248 9 | 116 2 | 189 9 | 555 0 | 44 9 |
| <i>Foodstuffs not normally produced in Great Britain—</i> | | | | | |
| Fruit and Nuts | — | 6 6 | 28 2 | 34 8 | — |
| Margarine | — (b) | 5 5 | 8 9 | 14 4 | — |
| Sugar | 20 (d) | 7 5 (e) | 22 7 (e) | 32 2 | 6 2 |
| Cocoa | — | 2 3 | 3 | 2 6 | — |
| Grand Total | 250 9 | 138 1 | 250 0 | 639 0 | 39 3 |
| | | | | | 21 6 |
| | | | | | 39 1 |

(a) Flour made from home grown wheat only The estimated value of the flour manufactured from imported wheat is included under net imports

(b) The value of home produced margarine is included under net imports

(c) After allowing for estimated exports

(d) Excluding excise duty

(e) Includes sugar refined in Great Britain from imported unrefined sugar

growing countries is rapidly increasing. The quantity of cotton obtained from the United States is declining, and Egyptian and Indian cotton is gradually but surely taking its place. This change was first stimulated by the Lancashire cotton famine in 1863-1865, when civil war was at its height in America. It has been since further helped by the rapid development of the cotton manufacturing industry in America, who consequently needs more and more of her cotton supplies herself. The only port for the importation of cotton is Liverpool, the gateway of the cotton district of Lancashire.

Great Britain imports about six times as much *wool* as her own sheep can produce. Before the war the average annual value of imported raw wool was £33·22 millions, of which £13·06 millions was obtained from Australia, £7·76 millions from New Zealand, and £1·84 millions from the Argentine. At the present day the value of this import stands at approximately £40 millions, of which about 90 per cent is supplied by the Empire.

Of the other materials for textile or woven goods the most important are flax, jute, silk, and hemp. Silk comes from the famous French silk area round Lyon, from North China, and India, flax from Belgium, jute from India, and hemp from Germany. The port to which all these goods are sent is London.

The twentieth century has seen an enormous increase in the demand for *rubber*, the uses of which have been enormously extended in an age when motor-cars, bicycles, and rubber heels are all the vogue. Para rubber was formerly unrivalled, and most of our supplies were exported from this South American port until the plant was introduced into Malaya and the East Indies, and scientifically cultivated. South American rubber is wild, and the trees near the Amazon are recklessly tapped, and the bad transport facilities make it uneconomic to bring supplies from interior parts of the forest. In Malaya, however, the rubber is grown in plantations, and care is taken when tapping to leave enough rubber to keep the tree alive. About £25 millions of rubber were imported in 1927, and of this the greater part came from the Straits Settlements and the Federated Malay States, but the amount derived from the latter region is increasing at the expense of the former.

Most of our *timber* is imported from Canada and Scandinavia. In 1928 these imports were valued at £43 millions, and of this £38 millions came from foreign sources—chiefly Finland, Sweden, and other

countries on the Baltic. The greater part of this is useful timber. Ornamental woods come from the tropical forests—mahogany from Central America, satinwood from the West Indies, and rosewood from Brazil.

Skins and *hides* are imported in vast quantities chiefly from Australia, New Zealand, the United States, Canada, and Argentina. *Furs* come from Canada, Siberia, and the seal fisheries of the extreme north of the Pacific Ocean. *Ivory* is obtained from the African elephants, and *ostrich feathers* from the South African ostrich farms.

London is the port for the importation of all the above tropical products—rubber, ornamental timber, and ivory—and most of the skins and hides. Baltic timber is sent to Newcastle and Hull, and that from Canada to Liverpool.

Though Britain is a great mineral producing country, her imports of *minerals* are vast in quantity and value. The ores only will be dealt with here, and the mineral manufactures in the next group. In 1928 the annual imports of mineral ores were worth £25 millions and consisted chiefly of the industrial metals, iron, tin, copper, and lead—but also included gold, silver, and platinum. Iron accounted for nearly £5 millions of the mineral imports, of which nearly £2 millions came from the north of Spain, where the mines are worked largely by British capital. The ore is shipped from Bilbao.

The demand for *copper* has been enormously increased by the growing use of electricity for everyday purposes. With the exception of silver, it is the best conductor of electricity, and is much cheaper than that metal. The value of copper imported annually was nearly £2 millions in 1928, half of which came from Canada.

Tin is imported from the Malay States and is brought chiefly to Swansea, where there is a big tin plate industry. The rich tin ores of Malay, and the cheap ocean carriage from Singapore, brought ruin to the tin mines of Cornwall, whose poorer ores, though next door to the South Wales tin plate works, were discarded in favour of the Eastern supplies.

The *precious metals* are important for the purpose of coinage and the manufacture of jewellery. Gold is obtained from South Africa, Australia, California, and Canada; silver from the United States, Tasmania, and Australia.

III. ARTICLES WHOLLY OR MAINLY MANUFACTURED. This group of imports is not so important as the other two, since Britain

herself is a manufacturing country. But she is a free trade country also, and foreign manufacturers are competing seriously in some cases with home produced goods. The chief rivals in this respect are the United States, Germany, and to a smaller extent, France. The value of this group in 1928 was £318 millions.

One class of imported manufactured goods, however, does not compete with any home produced commodities. It consists chiefly of hand-woven rugs and carpets from Turkey, Persia, and India, which are valued for their colour and design, and of art goods such as Sèvres porcelain, Dresden china, and Japanese *cloisonné* ware. The group is unimportant compared with the competitive group of textiles. The cotton goods imported annually on the average are worth about £10 millions, consisting chiefly of lace from Germany and the northern industrial area of France, and hosiery from Germany and the United States. A great deal more manufactured silk is imported than the British looms produce.

The value of all imports is that when the goods arrive in port—i.e. including cost, insurance, and freight (c.i.f.).

The main articles of merchandise have been mentioned in the above three groups. But this is not all. Invisible imports, though not so great as invisible exports, are considerable. They include interest on foreign capital invested in Britain. Invisible items in our foreign trade are never recorded in the Board of Trade Returns

TEST PAPER VI

1. Into what three main classes may British imports be divided? Account for any change in the nature and direction of our food imports within recent years

2. Enumerate the chief sources from which Great Britain obtains her supply of raw cotton

3. From what countries does Great Britain derive her chief supplies of wool, jute, hemp, and rubber

4. Classify the principal British ports according to the nature of their importations.

5. Mention any manufactured articles imported into Great Britain which do not compete with home produced commodities

6. "Every importation of foreign commodities occasions a corresponding diminution or discouragement of our own productions." Examine this proposition carefully. Would you draw any distinction between the different kinds of imported goods?

7. Why do the imports of the United Kingdom always exceed the exports in value?

8 How do the following figures reflect the economic organization of the United Kingdom? Explain the difference between the two totals

UNITED KINGDOM 1928

| | Imports £ millions | Exports £ millions |
|----------------------|-----------------------|-----------------------|
| Food, drink, tobacco | 531 | 54 |
| Raw materials | 334 | 70 |
| Manufactures | 318 | 579 |
| | £1 183 | £703 |

9 Draw up, as fully as you can an international balance sheet between the United Kingdom and the rest of the world showing the items on account of which payments are due to this country in a given year, and those on account of which payments are due from it

10 Give a clear account of the trade in any two of the following products—

(a) Coffee (b) rubber (c) spices (d) tin (e) timber

CHAPTER VII

ORGANIZATION OF THE IMPORTER'S BUSINESS

FROM the description given in the previous chapter it will be seen that the principal goods imported into the United Kingdom are foodstuffs, and raw materials for manufacturing purposes. It is now necessary to describe the commercial organization which exists for the purpose of dealing with this trade. In all branches of business enterprise good buying is one of the requisites of success. Importing is mainly a problem of buying and all the essential qualifications which successful buyers must possess when they purchase goods in the home market apply with equal force to those who buy abroad. The problem of buying is naturally complicated in the import trade by the great distances which usually separate buyers and sellers, a fact which makes personal investigations and contacts more difficult. Overbuying, that is, the locking up of an excessive amount of working capital in stocks of goods, must be carefully guarded against, the more so as the temptation to commit this error is especially great. Imported goods cannot always be procured at short notice, so that relatively large stocks have to be carried, but whilst this fact must be recognized and the policy of the business framed accordingly, a due sense of proportion must be preserved.

NATURE OF THE IMPORT BUSINESS. The primary function of the importer is to act as an intermediary between overseas suppliers, and the wholesale distributors in the home trade. At one time almost the whole of the import trade was carried on by merchant importers working on a commission basis. At the present day, however, in certain markets the wholesale dealers have learned the advantages of establishing direct connections with foreign sources of supply, and where this has happened, importers have lost their strategic position. They have now become competitors of the wholesalers in distributing goods to retailers and to small jobbers in inland towns.

With few exceptions, the importer's business is organized according to goods or classes of goods. It is true that general importers are prominent in industrially backward countries such as China, where

satisfactory arrangements can be made only with large, reliable importing firms established at the ports. When a market develops, however, specialization soon follows, and importers appear who handle only certain classes of goods such as grain, timber, wool, cotton, and colonial produce. The reason for this development lies in the fact that considerable technical knowledge of the qualities of the goods dealt in must be acquired by the importer and unless he limits his activities he seriously jeopardises his prospects of success. Where a business undertakes the importation of several classes of goods, a departmental organization is adopted, each department being placed under the control of an expert buyer, who possesses a specialized knowledge of the goods.

Imported goods may be divided into two classes, namely—

(a) **Staple Commodities.** So far as Great Britain is concerned these consist mainly of raw materials and foodstuffs. For the most part,

CLASSIFICATION OF IMPORTS

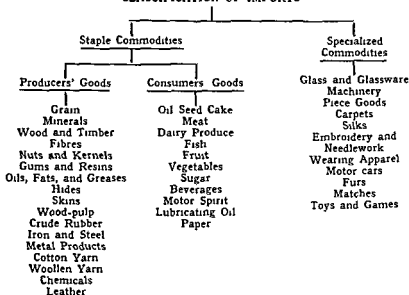
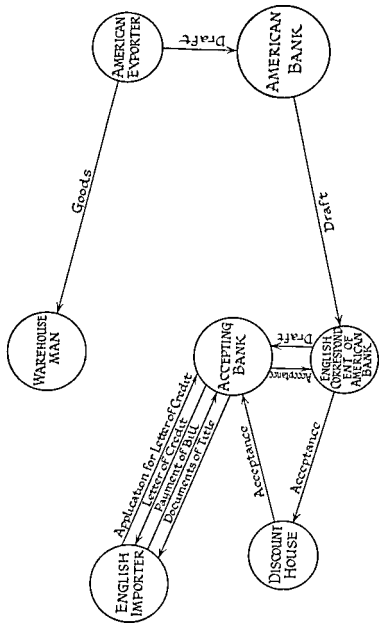


DIAGRAM SHOWING CLASSIFICATION OF IMPORTS

they fall under the heading "Producers' Goods" since they usually undergo some process of manufacture before they reach the hands of the consumer. Certain of these imported staples enter directly into consumption, the chief being foodstuffs of various kinds.



FINANCING A TRANSACTION IN THE IMPORT TRADE

For this the London banks charge an acceptance commission of about $\frac{1}{4}$ to $\frac{3}{4}$ per cent. The seller abroad draws for the amount of the invoice in sterling, upon the London bank which has been indicated to him, at three or six months after sight, and negotiates this draft with his bank, or gives instructions to his bank to draw themselves for his account upon London. The negotiating bank overseas sends the documentary draft to its correspondent in London, who presents the draft to the bank for acceptance against the documents. In the case where an open credit is allowed to the customer, the accepting bank sends the documents immediately to the buyer. If this is not the case, the documents are delivered to him against a letter of lien or he is called upon to procure cover. In the latter case the release of the goods, which in the meantime have arrived and been warehoused, frequently takes place in small lots against payment for the amount delivered. This procedure is illustrated by the diagram on page 73.

In the case of direct drawing upon the buyer, documents against payment are generally insisted upon. Frequently, especially in the case of imports from the U.S.A., the condition "documents against cash," with or without discount, is insisted upon. Sometimes the shippers do not wait for firm orders to ship the unsold goods to Europe, but utilize the period of transport in order to sell them. Where it is a question of entire cargoes, the vessel is at first directed to a port to call for orders, as for instance a port in the English Channel. Here, the captain receives his instructions as to where he has to go to discharge his vessel. In this case, likewise, the shipper frequently obtains an advance from his local bank or from the importer in this country. In the latter case, such shipments take the form of consignments. The shipper issues an invoice in the same way as if he had sold the goods, but he deducts a certain margin in order to safeguard the commission agent against any possible differences. If he does not make this deduction in the invoice he draws for a smaller amount than that stated therein.

ORGANIZATION OF THE BUSINESS. At one time by far the greater part of the import trade was in the hands of import merchants who worked on a commission basis, but at the present day the importer is in most cases a merchant on his own account. As in every branch of business economics, it is impossible to be dogmatic, since almost every conceivable variation of organization may be

found. In some cases as for instance tea the imported commodity may be actually the property of the importer at the time when it is growing in the plantation and remains so until it leaves his hands in packets to be sold through the medium of the retail trade.

As a general rule the importer confines his attention to a limited range of commodities thus simplifying considerably the work of buying. He may conduct the business of buying through his own branches established in the country of production and many importers adopt this method maintaining permanent offices in the leading foreign markets. Alternatively he may send out buyers on periodical trips to overseas markets for the purpose of effecting purchases or he may maintain business relations with a confidential agent permanently established on the spot. Such an agent as the latter can usually obtain the most favourable prices since he is kept informed by cable of the movements in the European markets. Furthermore being an expert familiar with local conditions he can select the most favourable time to purchase.

TEST PAPER VII

1. Importing is mainly a problem of buying. Illustrate the significance of this statement.
2. What are the chief functions of the importer? Outline the structure of the import trade in regard to any trade with which you are acquainted.
3. What in your opinion are the chief causes which account for the tendency towards specialization in the import trade?
4. In the light of the diagram on page 71 classify the goods which are imported into Great Britain.
5. Trace the procedure adopted by the importer in the execution of his business paying special attention to the financial side.
6. Draft what in your opinion is a typical scheme of organization for an importer's business.
7. The importing firm should have a thorough knowledge of the appropriate trade regulations and should exercise constant vigilance in respect of changes in transport freights tariffs and consular formalities. Illustrate the significance of this statement.
8. It has been said that British commerce is benefited by the high degree of differentiation that has come into existence. Consider this proposition and illustrate it by some reference to the import trade.

CHAPTER VIII

CUSTOMS AND EXCISE

THE primary business of the Customs and Excise Department is the collection and management, under the directions of the Commissioners of Customs and Excise, of duties of Customs and Excise in Great Britain and Northern Ireland. In addition to its main business of collecting and safeguarding revenue it has also, especially of late years, become committed, by successive enactments of law, to the performance of services having little if any bearing on revenue interests. The majority of these extraneous services are performed on behalf of other departments of government, which have not a suitable staff available. Thus, Customs officers at the present time assist in controlling for other departments the traffic in many non-dutiable goods which, on various grounds of public policy (e.g. for the protection of health), are subject to prohibition or special regulation on import and export.

NATURE OF THE TARIFF. The British Customs Tariff is an import tariff only, i.e. there are no customs export duties. The import duties are of two kinds, viz., (1) *Specific Duties*, i.e. fixed rates of duty per unit of weight, volume, measure, or number, and (2) *Ad valorem* duties, i.e. rates of duty at so much per cent of the value of the goods. For example, on the one hand for spirits the unit of charge is the proof or liquid gallon, for cinematograph films, the linear foot, for playing cards the dozen packs, and for matches the standard gross of containers; while on the other, clocks and musical instruments are chargeable at a fixed percentage of their value. There are certain classes of goods as to which liability to both kinds of duty exist; chloroform, for example, is liable to specific duty at 4s. 4d. the pound weight, and it is also liable to *ad valorem* (Key Industry) duty at $33\frac{1}{3}$ per cent of its value. In such cases of dual liability, however, only one of the two duties, i.e. whichever is higher in amount, is actually charged.

Preferential Customs Rates are granted in respect of the majority of the goods included in the tariff, where these are shown to the satisfaction of the Commissioners of Customs and Excise to have

been consigned from and grown, produced or manufactured in, any part of the British Empire. In the majority of cases the preference takes the form of a percentage reduction, varying in amount according to the nature of the goods of the full rate of duty payable, in the case of 'Key Industry' goods, and also in the case of currants and other dutiable dried and preserved fruit, it takes the form of complete exemption from duty.

Goods Liable to Specific Duty. The following are the principal classes of goods which, under the existing tariff, are liable to specific duty—

Beer, spirits, wine, tobacco, sugar, glucose, molasses, saccharin, cocoa, coffee, chicory, currants, dried or preserved fruit, matches, playing cards, cinematograph films, hops, silk and artificial silk, mantles for incandescent light, arc lamp carbons.

Goods Liable to "Ad Valorem" Duties. The *ad valorem* duties at present in force apply to certain Key Industries such as optical glass, scientific instruments, dye stuffs, chemicals, etc., motor cars, musical instruments, clocks and watches, articles of silk or artificial silk, lace and embroidery, cutlery, gloves, packing and wrapping paper. The duties vary from 16½ per cent on packing and wrapping paper to 50 per cent on optical glass.

CUSTOMS ADMINISTRATION. Apart from the central establishment in London, the customs service is arranged on the lines shown in the diagram on page 78.

The coast line of Great Britain and Northern Ireland is divided into areas which are each in charge of a collector who is responsible for the Customs administration therein. Each area contains a head port and most of them contain also subsidiary ports and creeks. These subsidiary ports and creeks are in charge of officers of lower rank subject to the collectors' supervision.

The Indoor or Clerical Service. The customs service may be divided into an indoor and an outdoor branch. The officers of the indoor or clerical branch deal with the receipt and payment of moneys and perform indoor clerical work. They receive and register the "Reports" of masters of vessels arriving and issue "Clearance documents to masters of vessels departing." They assess and receive light dues on behalf of the Trinity House and other lighting authorities, and they keep the statutory registers of British ships and sea fishing boats.

In connection with imported goods they receive "entries" from

CUSTOMS & EXCISE ADMINISTRATION

DISTRICT COLLECTOR

EXCISE

CUSTOMS

OUTDOOR SERVICE.

INDOOR (or Clerical)
SERVICE.

(Clearance of Documents)
(Inwards and Outwards).

WATERGUARD (or Preventive)
BRANCH.

LANDING, SHIPPING & WAREHOUSING
BRANCH.

Chief Duties:-

Boarding of Vessels.
Enforcement of Health Regulations.
Prevention of Smuggling.
Examination of Free Goods in Bulk.

LANDING WORK.
Declaration
of Imports.

WORK IN
BONDED PREMISES. WORK.

Inward
Clearing Note
& Entry Outwards.
Specification
of Goods.
Manifest.

SHIP'S REPORT. IMPORT ENTRIES.

FREE GOODS. DUTIABLE
GOODS.

RE-EXPORTS. DOUBTFUL GOODS.
(Shipping Bill).
(Bill of Sight).

FOR IMMEDIATE USE.
Entry for Home Use
Ex-Ship.

FOR WAREHOUSING.
Landing Order.
Warehousing Entry.

WARRANT-(a) Particulars of Goods.
(b) Receipt.
(c) Delivery Order.

DIAGRAM SHOWING CUSTOMS AND EXCISE ADMINISTRATION

importers taking the duty on dutiable goods to be removed for home consumption or taking bond to cover the duty on goods to be removed to bonded premises or transhipped

In the case of exported goods they see that shipping bills for goods exported on drawback or from bonded premises and specifications for other goods on board outward bound vessels are lodged by exporters and they pay drawback where due on goods exported. They also perform duties in connection with wreck and salvage and at certain small ports duties in connection with the Mercantile Marine

The Outdoor Service The outdoor services may be divided into two main branches viz the Waterguard (or preventive) branch and the Landing Shipping and Warehousing Branch

1 THE WATERGUARD BRANCH The primary duty of this branch is the detection and prevention of unauthorized landings of uncus-tomed or prohibited goods by crews and passengers. The officers take account of the arrivals and sailings of vessels meet and board vessels take any necessary steps for the safety of the public health under the Acts relating to public health deal with the dutiable stores of the crew and the vessel securing any excessive quantities under seal and examine the personal effects of the crew and the baggage of passengers and assess and receive any duty chargeable thereon. They visit and search vessels while in harbour and watch shipping generally with a view to preventing smuggling. They also attend to the measurement of deck cargoes for purposes of dues payable on a ship's tonnage supervise the landing of cattle and explosives and the unloading of cargoes of non-dutiable goods in bulk such as timber and grain perform certain duties in connection with the arrival of aliens and take account of bonded stores shipped on outward bound vessels

2 THE LANDING SHIPPING AND WAREHOUSING BRANCH The work of this branch is mainly connected with goods which are imported deposited in bonded premises or exported

(a) *Landing Work* The duty of the officers in this connection is the control and examination of imported merchandise. They satisfy themselves that all goods borne on the Report made by the master of the importing ship are satisfactorily accounted for and that all goods landed are duly entered in the appropriate form by the importer. In the case of dutiable goods the officers

raise the official amount of duty on the several classes of goods in the Customs Tariff. This involves ascertaining the strength of wines and spirits, the polarization of sugar, the gravity of beer, etc.; determining quantities in casks, bottles, and other vessels; and weighing and "taring" packages of dry goods. They scrutinize goods of all kinds, whether entered as dutiable or free, to ascertain whether they have been correctly described in the "entries." Concurrently with the examination for revenue purposes they satisfy themselves that, in the case of goods which are subject to special regulations or restrictions on importation, the regulations are duly complied with. They withhold delivery of dutiable goods until the full duties have been paid, in the case of goods intended for home consumption, or until proper security has been given to cover removal, in the case of goods intended to be placed in bonded premises or transhipped, and they seize goods contravening any import restriction or prohibition.

(b) *Work in Bonded Premises.* At bonded warehouses the officers keep accounts of all goods received and delivered, supervise and control operations on the goods while in bond, and see that the full duty has been paid before any goods are delivered for home consumption, or that it has been secured by bond before any goods are delivered from warehouse for re-warehousing elsewhere or for exportation.

(c) *Export Work.* The officers examine goods from bonded premises presented for shipment, and goods presented for exportation on drawback. They also carry out various regulations in regard to the exportation of particular kinds of goods, e.g. in connection with fire-arms.

DECLARATION OF IMPORTED GOODS. An importer of foreign goods has to "declare" the consignment of the goods he receives to the officers of the Custom House at the port of importation; that is, he is bound by law to furnish definite information with regard to them before the goods are landed. All goods must be entered and landed within twenty-one days of the vessels arrival, but they are not allowed to be landed until they have been examined by the Customs and the entry passed. Generally speaking, all goods may be landed with the exception of those prohibited by law. These include such articles as coin, matches with white phosphorus, gooseberry and currant bushes, hay, etc.

There is also a declaration required from the master of the vessel, known as the ship's report, which must be entered within twenty-four hours of the vessel's arrival. Thus it will be seen that there are two declarations required—one by the receiver of the goods and the other by the master of the vessel, but while there is only one report there may be numerous entries corresponding to the number of consignments, for each importer will put in an entry for that parcel or quantity of the cargo he is due to receive. The entry or entries must agree with the report and if they do, they are passed by the Customs official, and the goods may be landed.

SHIP'S REPORT. The master of every ship trading between a foreign port and this country is required to deliver a report, within twenty-four hours of arrival of the whole of the cargo of his ship. Until this is done, bulk may not be broken and no goods landed. A specimen report is shown on page 82. The chief points to note in regard to this document are—

- 1 The Report must be made on the prescribed form
- 2 Particulars have to be furnished as follows: name of ship, port of registry, nationality, port whence, number of crew, whether British or foreign
- 3 Particulars of the whole of the cargo
- 4 An account of all the stores liable to duty in the possession of the master and his crew

This is presented to the Customs by the shipowner or his agent, who at the time of making the report must answer all questions put him by the Customs regarding the ship and her cargo, crew, and voyage, and if he refuses to answer or does not answer truly, he is liable to a penalty.

ENTRIES. The Ship's Report constitutes the entry inwards of the vessel. As regards the cargo, entry must be made by the importer or his agent in accordance with the Customs requirements, the form of entry when duly passed constitutes the warrant for the landing and delivery, or warehousing, as the case may be, of the goods that make up the cargo. Imports may be divided roughly into four main classes, viz—

- 1 Free goods, that is, those which can be imported without being liable for a tax or duty
- 2 Dutiable goods, that is, those upon which must be paid a duty before they can come into the possession of the importer



REPORT

If Sailing Vessel, }
Motor Vessel } *Steamer*
or Steamer }

No. 3 (Sale)

Official Number 1057963

Port of *Cardiff*

No.

Number of Registers 21

Date of Registry 1920

| Ship's Name | Tonnage | British or Foreign, if British, Port of Registry, if Foreign, Country to which she belongs | Number of Crew | | Name of Master, and whether a British or Foreign subject | Port or Place from which arrived |
|-----------------|------------|---|-------------------|-------------------|---|---|
| | | | British Seamen | Foreign Seamen | | |
| <i>Estrella</i> | <i>800</i> | <i>Foreign Belgium</i> | <i>3</i> | <i>18</i> | <i>J. Popieul Foreign</i> | <i>Antwerp</i> |
| | | Total | <i>21</i> | | | |

CARGO

| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
|---|--|---|--|---|---|-----------------------------|
| Name or Names of Places where laden in order of time | Marks | Nos | Packages and Descriptions of Goods, Particulars of Goods stowed loose, and General Denomination of Contents of each Package of <i>Tobacco, Cigars, Snuff, Spirits, or Saccharin, intended for this Port,</i> and Particulars of Packages and Goods (if any) <i>for any other Port</i> | Indicate opposite the re- spective items of Cargo for other Ports (if any) whether (I) For another U K Port by (a) Remaining on board or (b) Carriage coastwise or (II) For a Port abroad by (c) Remaining on board, or (d) Transhipment | Name of Consignee | For official use only |
| <i>Antwerp</i> | <i>II DR HHM. M MS ABD FDC. MCB Various 1/55 AB. CO ORO M. 415. GSL. KFO</i> | <i>red 1/8 6357 Ponty RD 1/400 1/20 7267 667. LC.</i> | <i>10115 Iron Bars . 8 Bales Mats . 215 Rolls Wire Netting 36 Joists . 2 c/s Mouldings 40 c/s Condensed Milk 27 c/s Wire Nails . 2 c/s Plateglass 240 c/s Windowglass 55 c/s Chrese . 400 Cases Starch . 20 Barrels Oil . 200 Steel Plates . 8 c/s Tubes . 1 Case Pump Machinery 5 Cases Containing Steam Turbines . 80 Coils Lead Pipes . 14 Pkgs Iron Ware . 25 Cases Preserves . 5 Bales Mats . 5 Crates Basketware . 20 c/s Stoneware . 1 c/s Framed Mirrors 20 Bags Saltpetre .</i> | | <i>O/O John Jones & Co, Ltd</i> | |
| | <i>ET. BR. M.T. J.C. AN. HG. PS. T.&S.</i> | <i>Cardiff 2978 1/6 1/20</i> | | | | |

SPECIMEN SHIP'S REPORT

CARGO

| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
|--|-------|-----|---|--|-------------------|-----------------------|
| Name or Names of Places where laden in order of time | Marks | Nos | Packages and Descriptions of Goods Particulars of Goods stowed loose and General Denomination of Contents of each Package of Tobacco Cigars Snuff Spirits or Saccharin intended for this Port and Particulars of Packages and Goods (if any) for any other Port | Indicate opposite the respective items of Cargo for other Ports (if any) whether (1) For another U K Port by (a) Remaining on board or (b) Carriage coastwise or (11) For a Port abroad by (c) Remaining on board, or (d) Transhipment | Name of Consignee | For official use only |
| If any wreck or derelict was fallen in with, or picked up or iceberg observed or any casual ty to the vessel occurred during the voyage particulars to be stated | N d | | | | | |

STORES

| | | | | | | |
|---------------------------------------|----------------------|-----------|------------------|-------|-----------------------|--------------|
| Surplus Stores remaining on board viz | Tobacco Cav | lb | Perfumed Spirits | gal | Playing Cards | No. of packs |
| | OS | 2 lb | Saccharin | oz | | |
| | Unmanufd | lb | Tea | 3 lb | | |
| | Cigarettes | 200 lb | Wine | gals. | | |
| | Cigars | lb | | | | |
| | Spirits | 2/6 gal | | | Sundry low duty goods | |
| | Cordials or Liqueurs | 1/5 6 gal | | | Copyright Works | |
| | | | | | Live Stock | |

Number of Passengers (if any) British__ Alien__ Total Number__

Pilots Names__

* At what Station bl up lying__ East Dock Cardiff__

Agent's Name and Address__ John Jones & Co Cardiff__

I declare that the above is a just Report of my Ship and of her Lading and that the particulars therein inserted are true to the best of my knowledge and that I have not broken bulk or delivered any Goods out of my said ship since her departure from *Antwerp* the last Foreign Place of Loading †

(Signed) *J Popieul* (Sgd) *Master*

Signed and declared this *28th* day of *November* 19—

In the presence of
(Countersigned)
prb Collector

* If this is not the station of discharge state also where cargo will be discharged

† Delete if not applicable

BACK OF SHIP'S REPORT

ENTRY FOR FREE GOODS

Port

Cardiff

East Dock

| Dock or Station | East Dock | John Jones & Co., Cardiff |
|-----------------------------|-----------|---------------------------|
| Importer's Name and Address | | |

John Jones & Co., Cardiff

Importer's Name and Address

| | Port or Place of Shipment of Goods | Antwerp |
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Date of Report

Rotation No.

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Examination

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use only

**Number and Description of Packages, and
Description of Goods, in accordance
with the Official Import List**

Marks and Nos.

II Red
I White at ends
II Yellow
III Blue M. 1679

*we've thousand four hundred and twenty-nine
Iron Bars, Rods, Angles, Shapes, and
Sections other than of special steel*

Belgium

00521

500 Tons

I enter the above Goods as free of Duty, and declare the above particulars to be true,
Dated this 12th day of November, 19 (Signed, . . . Clerk to . . .)

Clerk to
John Jones
Imbo

importer or his Agent.

CHATELAIN CODE. Vol. II., Part II., Pars 1-6, 9, 10, 13-18, 20, 31-39.

$$\begin{array}{r} 46553 \\ \times 1927 \\ \hline \end{array}$$

(1) In the case of goods which are invoiced at a quoted price, the value to be stated in this Entry should be the prime cost with the freight and insurance added (i.e. f.o.b. value).

(2) When the goods are consigned for sale, the value to be given should be the latest sale value of such goods.

[illegible]

STUDY FOR THE GODS

3 Goods for re export that is those which are obtained from abroad but are intended for shipment to some other country

4 Doubtful goods that is those of which the merchant has insufficient knowledge to know whether they are free or dutiable

Entry for Free Goods When goods are imported into this country without being liable for Customs duty an entry for free goods made out in triplicate is given to the Customs authorities at the port of importation. One copy of this document called the warrant is forwarded to the Customs officer at the place where the goods are landed and constitutes his authority for the delivery of the goods. The goods are examined and if the particulars on the entry are correct they are placed at the disposal of the owner and are deemed to be cleared. A specimen entry for free goods is given on page 84.

Entry for Dutiable Goods For an exporter to obtain possession of goods which are liable to a Customs duty the procedure is a little more complicated. There are two ways of obtaining them viz (1) to pay the duty at the time of landing and receive the goods right away and (2) to warehouse them in an approved warehouse called a Bonded Warehouse and pay the duty on such quantities as he may require from the warehouse from time to time. This method has been found to be a great benefit to the small importer who would otherwise find it difficult to pay in a single sum the duty on the whole of his consignment. The procedure adopted in each case is as follows—

1 *Entry for Home Use Ex ship* When the importer wishes to obtain immediate possession of the goods without warehousing them he has to pay the duty chargeable filling in a form similar to that shown on page 86. It is then forwarded to the Custom House Officer at the dock or wharf where the goods are lying. The goods are examined and if the particulars on the entry are correct they are then placed at the absolute disposal of the owner but should the amount of duty be found insufficient the balance must be paid before delivery can be made. With goods the duty of which is payable according to strength such as wines and spirits or polarization as with sugar degree of sweetness as with condensed milk and preserved fruit samples are forwarded to the Government laboratories for analysis and the duty is then fixed.

2 *Warehousing of Dutiable Goods* When the importer desires to warehouse the goods and pay the duty only when he wishes to take

H.M. CUSTOMS
AND EXCISE

TRY FOR HOME USE EX-SHIP OF DUTIABLE GOODS NOT LIABLE TO AD VALOREM OR KEY INDUSTRY DUTIES

This space is for the use of
Officers of Customs and
Excise

Cardiff Dock or Station East Dock

Examination of Merchant paying the Duty dated 19.....
(If Post) Prime Entry No. John Jones & Co., Cardiff

| Examined and passed by the Collector of Customs | | | dated..... 19..... | | | Port or place of Shipment of Goods, | | |
|--|--|--|--------------------|--|-------------------------|-------------------------------------|---|-------|
| Ship's Name | | Date of Report | Master's Name | | | | | |
| Estella | | 12/11/10— | J. Masterman | | | Antwerp | | |
| Marks and Numbers | Place and Country of destination in United Kingdom for Unmanufactured Tobacco and Spirits only | Number of Packages and Quantity in Words and Description of Goods in accordance with the Official Import List | | * Name of place whence Goods consigned | Net Quantity in Figures | † Value | £ | s. d. |
| T. P. & Co. 9896/135 | | 40 cases Condensed Milk. Sweetened Condensed Milk. Full cream. Each case contains 48—14 oz. Tins. Total net weight 15 cwt. | | Belgium | 15 cwt. | £58 | 4 | — |
| Total amount of Duty payable on this Entry—at 5s. 4d. per cwt. | | | | | | £ | 4 | — |

I declare the above particulars to be true.

(Signed) Clerk to
Total amount of Duty payable on this Entry—at 5s. 4d. per cwt.

Date....12th Nov., 19.....
John Jones & Co.,
Importer or his Agent.

* Note.—The place whence the goods were consigned is not necessarily the place of origin, but it is the place from which the goods were procured by the importer, i.e. the place of last ownership.
(1) In the case of goods which are invoiced at a quoted price, the value to be stated in this Entry should be the prime cost with the freight and insurance added ("c.i.f." value).
(2) When the goods are consigned for sale, the value to be given should be the latest sale value of such goods, exclusive of duty.

Customs Code, Vol. II, Part 15. Sec. 100740/1921.

SPECIMEN ENTRY FOR HOME USE EX-SHIP

Collector's No. and Date.



ENTRY FOR WAREHOUSING

(Importation Code, para. 544, and Warehousing Code, para. 20.)

Collector's No. and date.

Port.....Cardiff.....

Dock or Station.....East Dock.....

Importer's Name and Address.....John Jones & Co., Cardiff.....

| Ship's Name | Date of Report | Port or Place of Shipment of Goods |
|-------------|----------------|------------------------------------|
| Estella | 12/11/19-- | Antwerp |

| Marks and Nos. | No. of Packages | Description of Goods in accordance with the Official Import List | Quantity Net | * Value £ | † Name of place whence Goods consigned |
|------------------------|-----------------|--|--------------|-----------|--|
| T.P. & Co. 9006/135 | 40 | Cases Condensed Milk. Sterilized Condensed Milk. Full Cream. Each case contains 48—14 oz. Tins Total Net Weight—15 cwt. | 15 cat. net | £58 | Belgium |

Name and Address of Consignor.....Bernese Alps Milk Co.....

Switzerland

I enter the above Goods to be Warehoused in.....No. 15.....Warehouse, and declare the above particulars to be true.

* NOTE.—(1) In the case of goods which are invoiced at a quoted price, the value to be stated in the Customs Entry should be the prime cost with the freight and insurance added ("c.i.f." value).

(2) When the goods are consigned for sale, the value to be given should be the latest sale value of such goods.

† The place whence the goods were consigned is not necessarily the place of origin, but it is the place from which the goods were procured by the importer, i.e. the place of last ownership.

‡ The consignor is the last owner of the goods at the place from which they were procured; and the importer is the person by whom they were so procured from the consignor.

Dated this.....11th.....day of.....November.....19....

{ (Signed)

Clerk to.....John Jones & Co.....

Agent.

SPECIMEN ENTRY FOR WAREHOUSING



BILL OF SIGHT

| | | | |
|-----------------------------|----------------------------|-----------------|------------------|
| Port of ... | <i>Cardiff</i> | Dock or Station | <i>East Dock</i> |
| Importer's Name and Address | <i>John Jones & Co</i> | | |

| | | | |
|----------------|-------------|------------------|------------------------------------|
| Ship's Name | Rotation No | Date of Report | Port or Place of shipment of Goods |
| <i>Estella</i> | | <i>11 11 19—</i> | <i>Antwerp</i> |

| | |
|-------------------|---|
| Marks and Numbers | Number of Packages with the best Description of the Goods the Importer is able to give |
| <i>H C 120</i> | <i>Twenty cases Fancy Biscuits Sugar Coated containing sweetening matter Each case contains 144 packets each packet contains 12 cartons and each carton 12 biscuits</i> |

I, *Clerk to John Jones* the Importer or Agent of the Importer of the Goods above mentioned do hereby declare that I have not (or that to the best of my knowledge he has not) received sufficient Invoice Bill of Lading or other advice from whence the Quality Quantity or Value of the Goods above mentioned can be ascertained

Dated this *12th* day of *November* 19—
To the Surveyor

(Signed) *Clerk to*
Importer or his Agent
John Jones & Co

Sir
I request an extension of time from
15 11/19— to *18/11 19—*
in order to perfect sight

(Signed) _____
Collector

pro *Clerk to*
John Jones & Co
Granted

Surveyor
SPECIMEN BILL OF SIGHT

entering the goods as free or dutiable. This protects him from the heavy penalties which are imposed for making false declarations.

The Bill of Sight is sent to the Officer at the dock where the goods are lying and they are then examined. If they are found to be not liable for duty an Entry for Free Goods is substituted for the Bill of Sight and the goods are delivered. If however they are found to be dutiable the Bill of Sight is perfected to a Prime Entry, the duty paid and the goods delivered. It will be seen that the Bill of Sight procedure is only a method of ascertaining to which class the goods belong and then the customary methods to obtain possession are employed.

EXPORTATION. As in the case of imported goods so in the case of exported certain prohibitions are imposed in the public interest or in pursuance of international agreements and the prohibitions may be either absolute (as in the case of prepared opium) or partial (as in the case of tobacco the exportation of which is limited to approved ports). In certain cases a licence is required before goods may be exported.

FORMALITIES ON EXPORTATION. Before any goods are taken on board for exportation the master of the ship (or his agent) must lodge with the Customs the Inward Clearing Note of the vessel's last voyage and an Entry Outwards for the vessel. If loading has been begun at another British port he must also lodge the Clearance Outwards from that port in respect of the goods so loaded.

All export documents must be in accordance with the approved forms. Privately printed forms must correspond in colour, shape, size and print with the official forms. The name of the port, the name of the merchant and other suitable particulars may, if desired, be printed on the form. British goods must be described on the forms in accordance with the export headings in the official Import and Export list and foreign and colonial goods according to the import headings in the list and the values, net weights, destination, etc. must be inserted when required.

EXPORTATION OF FREE GOODS. The exporter of any goods for which no bond is required must within six days after the final clearance outwards of the exporting ship deliver either personally or through his agent at the Custom House at the port of shipment a Specification on the appropriate form containing the particulars required thereby and sign the declaration at the foot

Collector's { No. Date

Port or Collection Cardiff
 Station East Dock

| *Number and Description of | Month and Year | to |
|----------------------------|----------------|----|
| 1 | November | 10 |

.....Sparkling Wine other Sorts N.E. 25° Country whence Consigned.....Belgium.....

(including the County) _____
 Baltic House, Cardiff _____
 or his Agent, _____

Date... 14th November 19...

[illegible]

| Name of person or Firm paying duty | S | T | T | T | T |
|------------------------------------|---|---|---|---|---|
| S. Indstone & Co. Ltd | | | | | |

Received the sum of
£ s. d. One

[illegible]

| | |
|-------------|-----------------------|
| | Check Officer's |
| Total | £111 - |

Initials & Date _____ 19__

SPECIMEN WARRANT

II WAREHOUSE KEEPER'S ORDER

To the Warehouse keeper at No 10 Bond

Station Number

You may deliver the undermentioned goods provided that they are actually removed from the Warehouse before any addit on has been made to the duty chargeable

Month and year November 19

| Number and Description of Packages and Goods | Bonders Name | Rotation and Year | Marks | Numbers | Date of delivery (to be filed in by the Warehouse-keeper) |
|--|--------------|-------------------|-------|---------|---|
| One Case Sparkling Wine No 690 | | | | 690 | |

Name of Person or Firm paying duty

Officer Date 17th November 19

III MEMORANDUM TO BE RETAINED BY COLLECTOR

Station

Paid by

G & Co Ltd Card ff

Description of Goods

One Case Sparkling Wine No 690

Duty etc £ 1

11 s 0 d

NOTE — If the duty is paid on Gross Payment Receipt this Memorandum is not required and should be detached.

Collector's No and Date.

thereof. The production of invoices, bills of lading, or other documents relating to the goods described in a specification may be demanded from the exporter of the goods or his agent at the time of delivery, or at any time within twelve months of the delivery of the specification.

MANIFESTS. On the exportation of any goods for which no bond is required, the master or owner of the ship should deliver within six days after the final clearance of the ship, either personally or through his agent, at the custom house at the port of shipment, a "Manifest" of the shipped goods of every kind, setting out the marks, numbers, and descriptions of the packages, and the names of the consignors according to the relative bills of lading, and make a declaration that the manifest contains a true account of all the cargo of the ship.

CERTIFICATE OF ORIGIN. Broadly speaking, official certificates of origin may be obtained on request in respect of any goods exported from Great Britain. There is a wide variation, however, in the requirements of the Customs authorities and of the importers in the various countries of destination, and there is a corresponding range of certificates.

The form in which the certificate can be issued must, of course, depend upon the nature and reliability of the available evidence of origin; for example, no difficulty as to evidence would arise in cases where goods are accompanied on importation by acceptable certificates of origin, and remain under official supervision throughout the period of retention in this country.

To a considerable extent, the certificates necessarily take the form of a certified statement that the exporter has declared before the proper Customs and Excise officer that the goods are of a particular origin, and has produced reliable evidence in support of his declaration. Special forms of certificate have also been approved from time to time to meet the exigencies of trade in particular goods or of trade with particular countries. Where no special form exists, a form of certificate may be issued in manuscript to meet the circumstances of the case. The normal charge levied for the official issue of a certificate of origin is 5s.

EXPORT OF GOODS SUBJECT TO DRAWBACK. The drawback system is based on the general principle that duties of Customs and Excise are intended to fall only on goods for use or consumption in

Great Britain and Northern Ireland In accordance with this principle the law has made provision whereby dutiable goods and goods in the manufacture of which duty paid articles are used can obtain on shipment to an overseas destination or on being shipped for use as ships stores relief from duty charges under certain conditions

The drawback system applies to goods on which a *specific* duty has been paid and which have been used in the manufacture of other goods or have themselves been subjected to processes which cannot well take place in a bonded warehouse Thus drawback is allowed on goods in the manufacture of which sugar is used (e.g. confectionery jams and biscuits) and on tobacco manufactured from raw tobacco on which duty has been paid and on spirits which have been rectified or compounded (i.e. made into gin liqueurs etc.) The drawback system also applies to the various classes of merchandise which are liable to *ad valorem* duty provided the goods have not been used in this country and it also applies on similar conditions to certain classes of goods liable to specific duty (e.g. cinematograph films) The drawback payable is a Customs or an Excise drawback according as the duty originally paid was a Customs or an Excise duty

The procedure to be followed in claiming drawback varies according to the class of goods concerned Speaking generally the exporter must give bond that the goods shall be duly exported fill up a form of shipping bill satisfy the Customs that the duty in respect of the goods has been paid and produce the goods themselves for examination together with the shipping bill before exportation

The production of invoices bills of lading or other documents relating to the goods described in a shipping bill may be demanded from the exporter of the goods or his agent at the time of delivery or at any time within twelve months of the delivery of the shipping bill

Payment of drawback is made by means of debentures which are prepared and completed as soon as possible after the shipment and exportation of the goods has been duly certified The person to whom drawback is payable must make a declaration on the debenture as to the exportation of the goods

TEST PAPER VIII

- 1 What are the chief functions of the Customs and Excise Department ?
- 2 Into what two main classes may import duties be divided ?

3. Distinguish between the following: preferential customs rates, specific duties, *ad valorem* duties.

4. Describe the administration of the customs service, illustrating your answer by means of the diagram on page 78.

5. What are duties of the Indoor or Clerical Branch of the Customs Service?

6. Into what two main branches may the Outdoor Customs Service be divided?

7. Explain the meaning of the following: (a) Declaration of Imported Goods; (b) Ship's Report; (c) Customs Entries.

8. Under what circumstances are the following entries required: (a) Entry for Home Use ex ship; (b) Warehousing Entry; (c) Landing Order; (d) Shipping Bill?

9. What is the nature of the entry which must be made by an importer who is not in possession of the precise particulars of the goods he expects to receive?

10. A consignment of dutiable goods has been forwarded to Evans & Co., of Cheapside, London. Trace the formalities which must be recognized from the time the goods arrive at the London docks to the receipt of the goods in their own warehouse.

11. State briefly the customs formalities which are necessary on the exportation of goods from this country.

12. Write notes on the following: manifest, certificate of origin, drawback.

13. Describe the Custom House routine necessary when importing dutiable goods into Britain—

(a) When the goods are for home consumption.

(b) When the goods are to be re-exported at some future date.

Describe briefly the various forms used in both transactions.

14. Imagine that you have been informed that two cases labelled RJ1, RJ2, containing cork, which is not dutiable, and three cases, labelled X7, X8, and X9, containing Egyptian cigarettes, which are dutiable, await collection on s.s. *Swan* at Avonmouth. What must you do to obtain immediate possession of these?

CHAPTER IX

THE PRODUCE EXCHANGES

THE exchanges in Great Britain are, for the most part established by private corporations. For this reason, access to an exchange is permitted only to those who are members of this corporation or to their authorized representatives. Admission to these corporations however, is conditional upon acceptance of the regulations governing the body which require a certain financial standing and trade reputation. The English produce exchanges are almost exclusively exchanges for specialized products, and in their legal form are mostly private corporations. For this reason it is the usual condition that every member must possess at least one share. The organization of these specialized exchanges is by no means uniform some being bodies having a definite constitution whilst others are simply loose associations of business men interested in certain articles and using the exchange as a place of meeting.

FUNCTIONS OF THE PRODUCE EXCHANGES. As a rule commercial functions may be said to embrace three operations namely—

- (a) Buying and selling
- (b) Anticipating demand and supply
- (c) The bearing of risks consequent upon business enterprise

Between industrial organization and commercial organization there must necessarily be a close connection. Thus, specialization by process is to a large extent, dependent upon a continuity in the flow of supplies of raw materials, the securing of which depends largely on commercial activities. Moreover, production cannot be considered complete until the commodities are placed in the hands of the consumer, so that specialization in commerce leading to greater efficiency in the process of distribution will have the effect of reducing costs of production. The advantages resulting from specialization in the trading function are the reduction in the cost of buying and selling, reduction of insurance costs owing to the decrease of risks arising from imperfect knowledge, and greater efficiency in the productive process as regards both the nature of the goods produced and the time of their production. The organized

produce exchanges such as are found in London and Liverpool, are the outcome of the development of specialization in commercial activity, their outstanding economic function being the assumption of risks of price fluctuation in a commodity over a period of time.

In view of the fact that the produce exchanges exist primarily for the purpose of taking over the risks of fluctuations in prices from those who do not wish to assume them, it becomes necessary to inquire whether this can be done in the case of every commodity. Marshall, in his *Industry and Trade*, lays down four fundamental conditions which determine whether a commodity is suitable for dealings on an organized market. These conditions are—

1. That the commodity is not quickly perishable.
2. That the quantity of each thing can be expressed by number, weight, or measure.
3. That its quality can be determined by tests that yield almost identical results when applied by different officials, assumed to be expert and honest.
4. That the class is important enough to occupy large bodies of buyers and sellers.

To these four conditions Marshall adds a fifth, which will make organized marketing not only practical but also attractive. The commodity dealt in must be generally liable to considerable price fluctuations. In the absence of this condition there would be no opportunity for the professional dealers to make a living, and all risks would have to be borne by people whose special aptitudes lie in other directions. "This fifth condition," says Marshall, "implies that the things in question are not of such a nature that their supply can be varied by rapid and extensive changes in the rate of production; so that their price is prevented from fluctuating rapidly, and remains always close to normal cost of production."

Upon examination of a list of commodities it will be found that very few really satisfy the foregoing conditions. Wheat, maize, and certain other cereals, raw cotton, wool, coffee, and certain metals practically exhaust the number of articles which can be dealt in. Before trading on the produce exchanges can take place, however, some general understanding must be reached concerning the classification and grading of the commodities handled. A sample or standard which can be recognized by dealers must be defined by the authorities of each organized produce market. This process of

grading and classifying commodities is by no means a rapid one and many years were occupied in attaining the perfection which is now found in certain leading commodities

THE GRADING OF COTTON As an example of this important element in the marketing of commodities let us consider the grading of cotton. The staple of different kinds of cotton varies greatly in length strength and character. These and other differences though very evident to persons engaged in the trade are not easily understood by people not well acquainted with the commodity. Before cotton can be marketed in a satisfactory manner the various kinds and qualities must be named and designated in such a manner that the seller may be able to explain exactly what kind of cotton he has to offer and the buyers may know precisely what is being placed before them. Although names for different grades of cotton were in use in Liverpool as early as 1800 until very recently not only did the markets in different countries have different standards but even the standards varied in different cities in the same country. This naturally made trading between the different markets very inconvenient. The situation was further complicated by the fact that the same grade names were used in the different markets for different classes of cotton.

In 1882 the Liverpool Cotton Association was formed by an amalgamation of previously existing associations of cotton brokers and merchants. With the formation of this association the maintenance of certified standards and the provision of machinery for grading cotton and for settling disputes as to grading became part of its regular work. In the United States in 1909 following numerous complaints by cotton growers the United States Government began working towards the standardization of cotton grades. The use of the first set of standards was not compulsory and was subject to considerable criticism from the trade. In 1914 the United States Cotton Futures Act was passed and in conjunction with this a new set of official standards was prepared. Under the Cotton Futures Act these standards have become practically compulsory as the exchanges had to adopt them in order to avoid the payment of a prohibitive tax which is levied on all transactions concluded not in standard grades.

In 1923 the United States Cotton Standards Act was passed giving legal force to the official cotton standards established under

the Cotton Futures Act in all spot cotton transactions in inter-state and foreign commerce. Up to this date Liverpool standards had been the basis of all European transactions in cotton, but now American standards differed, and it became imperative that the two markets should adopt a uniform system. A conference was therefore held in Washington in 1923 when the so-called "universal standards" for American cotton were agreed upon between the European exchanges and the United States Department of Agriculture, and these were adopted in 1924 by the Liverpool Cotton Association. The universal standards contain samples representing nine grades of white cotton which are named—

1. Good Ordinary.
2. Strict Good Ordinary.
3. Low Middling.
4. Strict Low Middling.
5. Middling.
6. Strict Middling.
7. Good Middling.
8. Strict Good Middling.
9. Middling Fair.

The last named grade is the highest. Middling is the basic grade on which market quotations are based. The relative value of grades above or below middling varies in different seasons, the value depending largely on supply and demand.

THE LIVERPOOL COTTON EXCHANGE. The Liverpool Cotton Market constitutes an excellent example of a highly organized speculative market. The methods of buying and selling have been evolved over a lengthy period. From the point of view of international trade, cotton is the most important of all agricultural products. Millions of bales are produced each year and sold in the world's markets, to be consumed in countries widely separated from those in which it is grown. It will be evident that the commercial operations involved in the transaction of this huge volume of business are of supreme importance. The marketing must be conducted in such a way as to convey the commodity from the producer to the consumer by the shortest route, and at the least possible cost, so that the producer may receive a satisfactory price for his cotton, and the consumer get the goods he buys at a reasonable figure.

In the infancy of the cotton trade, English spinners and merchants

dealt directly with American plantation owners and farmers by sending their buying agents into the cotton belt. Alternatively raw cotton was consigned for sale to merchants in London or Liverpool who sold through brokers to dealers in Manchester and elsewhere. Market conditions were not satisfactory because of lack of ready means of communication and a central point from which quotations might be derived. By the end of the eighteenth century Liverpool had ousted London as the principal port to which cotton was consigned and with the opening of the Liverpool and Manchester Railway the system of selling through dealers and brokers was rapidly displaced in favour of the present system whereby spinners buy their cotton direct through buying brokers in Liverpool.

DEALING IN FUTURES The foundations of the present system of cotton marketing came into existence with the American Civil War which completely upset the conduct of the trade on the old lines. No regular shipments to New York were made during the latter part of the war and the only cotton received was some which was captured by the Federal Government through its blockade of southern ports or which was confiscated in the south. Such lots of cotton could not be handled on a commission basis but had to be bought outright as a speculation. Precisely the same thing happened at Liverpool where the fierce demand and inadequate supply gave rise to vast and unexpected profits. Out of this wild speculation there evolved the modern method of dealing in cotton for speculators began to buy not only cotton which was actually available in New York or Liverpool but also cotton to arrive when they heard of a consignment of cotton on a ship bound for one or other of these ports. From these beginnings arose the system of trading in cotton futures since business men with aims other than mere speculation saw in the system a means of protecting themselves in their purchases and sales of cotton. In 1866 the Atlantic cable was laid bringing the American and European markets into close contact. Market reports from America were now received in Liverpool daily and with this development a new scheme was devised to take the place of the cotton afloat sale resembling in its details the modern system of futures.

At the present day the actual business operations of buying and selling may be divided under two headings—

(a) *Spot Contracts* which are transactions where delivery of the

cotton is intended to take place either immediately or at a specified date in the future.

(b) *Futures* which are transactions which one or both of the parties intend to settle otherwise than by the actual handling of the commodity.

The term "spot cotton" was at first applied to actual cotton in a warehouse, piled up at a port, or actually on the spot in the market. The term is also used to designate cotton being shipped or *en route* to the market, or cotton that will be shipped at some future date. The term "futures" is employed in the produce markets in a special technical sense. A distinction has to be made between future contracts for the delivery of a certain kind of produce which are real purchases and the futures proper, which always relate to some known grade of produce, acting as media for the shifting of risks connected with purchases and sales. In this case the delivery of the goods to the holder of the future is not desired.

The object of futures is exemplified by the following. Suppose that a manufacturer is offered a contract which will employ his machinery and workers for six months ahead. In order to secure supplies of yarn at a known price for the term of the contract, he immediately secures a price from the spinner for future deliveries of yarn as he requires it, thereby freeing himself from the risk of price fluctuations in his raw material. The spinner may do one of three things: he may buy the raw cotton as he wants it and take the risk of changes in price; he may buy all the cotton he wants at once, basing his quotations on the existing price of raw cotton; or he may enter into a contract with a broker whereby the latter agrees to deliver the right quantity and quality at the proper time, the price being fixed at the time of the contract. In the first two cases the spinner bears the risk; in the third he passes it on to the broker who deals in futures and is simply a risk-bearer.

Specialized brokers do not work in the dark, for to aid them in making forecasts there has been evolved a highly technical crop-reporting system. The information at the disposal of dealers has steadily increased in volume, and has improved in trustworthiness. Data are now published concerning crop conditions in all parts of the world, weather conditions, insect depredations, and stocks of cotton available. The official figures are supplemented from time to time by numerous private forecasts.

fulfilling their functions, the cotton exchanges are of the greatest assistance to the trade which, indeed, could not satisfactorily be carried on without them. The value of the futures contract lies in the protection which it affords buyers and sellers of cotton and manufacturers of cotton goods. It is the "hedge," or price-insurance function of the futures contract, which makes it of such value to the trade, since it provides a means by which protection may be supplied to those who do not want to speculate, by those who wish to speculate and whose business it is to do so.

In common with every other institution, no matter what its nature may be, the functions of the exchange may be abused. It may lead to gambling on the part of outside speculators who have no knowledge of conditions affecting the trade, and it may facilitate manipulation of the market by professional operators. Speculation has been defined as—"Engaging in business out of the ordinary, or by dealing with a view of making profit from conjectural fluctuations in the price rather than from earnings or the ordinary profit of trade, or by entering into a business venture involving unusual risks for a chance of an unusually large gain or profit." Criticism is often levelled against the exchanges on the ground that members so manipulate buying or selling as to cause a rise or fall in the markets in order to suit their own financial interests. Whilst, however, it is true that a number of members who are interested in seeing prices advance can act together in buying, and cause some immediate changes in prices, the movement will be of short duration unless there is some real market condition to support it. When it is alleged that "manipulation" is an outstanding factor in price making, a big error is committed, for, in the majority of cases, attempts at manipulation only serve to bring disaster upon the heads of the originators. It must always be remembered that, in the long run, actual conditions alone can determine price, and it is difficult for any group of persons acting together to maintain a quotation not justified by facts.

In the majority of cases the so-called speculator is an expert middleman who makes his living by forecasting price movements and market demands, and by buying and selling for profit. He arranges for expert technical and general information concerning crops in various countries, and makes a detailed study of all conditions affecting the demand for the commodity in which he is

interested. The mode of operation is determined by his estimation of the trend of future events. If he anticipates future scarcity he buys now and sells later when the price has risen thus making a profit. But by buying in the face of future scarcity he raises the price with the result that the future rise in price which was inevitable is made less steep. On the contrary if he anticipates a fall in prices he sells now in order to buy back later when the price has fallen. Present sales tend to force down prices and thus reduce the steepness of the anticipated fall. Operations such as these conducted by experts armed with special knowledge of market conditions tend to equalize supply and demand and render fluctuations of price less sudden than they would otherwise be.

TEST PAPER IX

1. What is the usual legal form assumed by an English produce exchange? State the three main functions embraced by such an organization.

2. Enumerate the chief conditions which a commodity must satisfy to render it suitable for exchange dealings.

3. Show the significance of the grading of commodities in exchange dealings.

4. Explain why cotton is a suitable commodity for dealings on a produce exchange.

5. Classify the various kinds of operations which take place on the cotton exchange.

6. What are the functions of the cotton broker? Does he serve any useful purpose (a) to the manufacturer (b) to the community?

7. Show by means of an example what useful purpose is served by dealings in futures.

8. What special advantages or risks are caused to a manufacturer by the existence of a futures market for his chief raw material?

9. Write full notes on the following report on the cotton market—

Futures are $13\frac{1}{2}$ to 21 points higher the nearer positions being most affected closing barely steady. February 5 53 $\frac{1}{2}$ Feb March 5 53 March April 5 55 April May 5 56 $\frac{1}{2}$ May June 5 58 June July 5 58 $\frac{1}{2}$ July August 5 58

10. What is meant by hedging? In what way does it act as a form of insurance?

11. What are the advantages and disadvantages of speculation on a produce exchange?

12. There are certain markets devoted to certain kinds of imported goods which arrive here in large quantities. Indicate the locations of some of these markets and state the various kinds of goods dealt in.

13. Mention the different intermediaries usually concerned in the distribution of imported foodstuffs and state their respective functions.

14. What are futures as applied to the purchase of raw materials? Indicate the various type of futures obtainable at the present time and state their uses to the business man.